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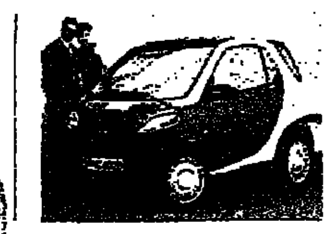


Today's survey

FT Auto

Separate section

World Business Newspaper http://www.FT.com MONDAY FEBRUARY 23 1998

WORLD NEWS

Chirac and Kohl back Poland for early EU entry

Poland's drive for early European Union membership received a boost from French president Jacques Chirac and Helmut Kohl, the German chancellor, at a tripartite summit in the western Polish city of Poznan. Meanwhile, Lithuania's foreign minister will today try to convince his counterparts from the 15 EU states that *the country should* be allowed to join soon. Page 2; Editorial Comment, Page 15

SEC self-regulation move
The Securities and Exchange Commission has warned it might have to reconsider the system of self-regulation by US auditors in the light of mergers planned among several of the Big Six global accounting firms. Page 16

Blair ponders meeting
UK prime minister Tony Blair is contemplating a new meeting with Sinn Féin leaders in an attempt to keep the republican party involved in the Northern Ireland peace talks. Page 16; Editorial Comment, Page 15

US to reward Milosevic
In a shift in policy towards the Balkans, the US is moving to reward Yugoslav president Slobodan Milosevic for his support of the new, moderate Bosnian Serb government. Page 2

Direct marketing campaign
The Federation of European Direct Marketing wants pressure applied to European Union states which limit promotions using *loyalty cards, sweepstakes, gifts* and the like. Page 2

Russia-Ukraine accord
Economic ties between Russia and Ukraine are set to tighten when a 10-year economic agreement is signed in Moscow during a summit between presidents Leonid Kuchma of Ukraine and Boris Yeltsin of Russia. Page 2

Computer virus warning
New computer viruses which can damage companies' software and cause costly disruption to businesses have more than doubled in the past 18 months. Page 6

Swedish jobs pledge
Swedish prime minister Goran Persson pledged to create 100,000 companies by the end of 2000 as part of his battle to reduce unemployment.

Brazilian film triumphs
Central Station, a low-budget road movie about a Brazilian boy searching for his father, directed by Walter Salles, won the Berlin Film Festival's Golden Bear award for best film.

Dispute at Fifa
Fifa, world football's governing body, is being threatened with a potentially divisive dispute over the future of its presidency – one of the most powerful jobs in international sport. Page 4

Rusedski wins final
Greg Rusedski fought back to beat Marc Rosset of Switzerland in the final of the European Community Championship in Antwerp. *The UK number one* beat the defending champion 7-6 3-6 6-1 6-4.

Boeing offer to RAF
Boeing has stepped up its drive to persuade the Royal Air Force to use its C-17 transport aircraft, apparently offering to lease it. Page 6

Kurdish rebels seek truce
The Kurdish warlords who control northern Iraq are temporarily abandoning their violent struggle for supremacy. Page 3

Attack on French train
A French TGV train suffered minor damage when an explosive device went off on the track in the Basque city of Irun in Spain.

BUSINESS NEWS

Mitsubishi to quit European and Japanese PC markets

Mitsubishi Electric, Japanese consumer goods group, is to quit the European and Japanese personal computer markets in a move which signals the end of Apricot Computers, one of the oldest UK consumer computer brands. Page 17

Goldman Sachs Asset Management is to launch its first marketing exercise in Europe in an effort to enter the highly competitive UK pension fund market. Page 17

Dresdner Bank, Germany's second biggest bank, raised annual pre-tax profits by nearly 20 per cent to DM3.3bn ($1.8bn). Page 20

Morgan Stanley Dean Witter Discover, US financial services group, plans to create a global payments network as a base for launching its Discover credit card worldwide. Page 17

CLT-UFA, Europe's biggest television and radio broadcaster, is to sell its 20 per cent direct stake in French satellite TV service TPS to two other French co-*shareholders in the venture, Suez* Lyonnaise des Eaux and M6. Page 21

Price Waterhouse, international accountancy firm, abandoned a plan to take a significant stake in Origin, a computer services subsidiary of Dutch electronics group Philips. Page 17

Société Générale, the French *bank, agreed to buy US invest*ment banking partnership Cowen & Company for $540m in cash. Page 20

Merrill Lynch, Goldman Sachs and Schroders have been appointed advisers by the Czech government for the sale of its remaining stakes in three of the country's biggest banks. Page 18

DSM and Gist-Brocades, Dutch chemicals companies, are exploring "possible forms of co-operation", fuelling speculation of a Fl18.2bn ($4bn) merger. Page 20

Barclays Bank of the UK refused to comment on reports that it planned to bid for Standard Chartered, UK-based international bank. Page 18; Lex, Page 16

MY Holdings, UK paperboard and plastics packaging group, is set to announce the formation of a European alliance to help members win more business from multinational pharmaceutical groups. Page 18

Videologic, UK-based graphics technology group, is to launch its second-generation PowerVR 3D graphics chip, aimed at the arcade systems, personal computer and set-top box markets. Page 18

LLP, business information group and publisher of Lloyd's List, plans an initial public offering on the London stock exchange. Page 18

United News & Media, UK media conglomerate, is in the final stages of talks to sell its northern regional newspaper division to venture capital group Candover. Page 18

Bass, UK brewing and leisure group, will today brief institutional shareholders and analysts on its agreement to buy Inter-Continental Hotels and Resorts *for* $2.9bn from Japan's Saison group. Page 17

Hyundai Electronics, smallest and most indebted of South Korea's three main chipmakers, sold Symbosis Logic, its US non-memory chip subsidiary, to Adaptec in a $775m deal. Page 17

UN secretary-general confident that security council will back agreement

Annan makes peace deal with Saddam

By Roula Khalaf in Baghdad, Mark Suzman in Washington and David Gardner in London

United Nations secretary-general Kofi Annan yesterday achieved a diplomatic breakthrough which would allow UN weapons inspectors full access to Iraq's "presidential" sites.

Following a three-hour meeting between Mr Annan and Iraqi President Saddam Hussein, Fred Eckhard, Mr Annan's spokesman, said there was an agreed text of a deal aimed at ending the standoff between Baghdad and the UN which would be signed today.

Mr Eckhard said the secretary-general expected to be able to sell any final agreement to the UN security council when he met the members on Tuesday.

However, Madeleine Albright, US secretary of state, warned yesterday that "it is possible that [Mr Annan] will come back with something we don't like, in which case we will pursue our national interest".

The US was sceptical about the progress in the talks and emphasised that it was continuing its military build-up in the Gulf, begun after Mr Saddam denied UN weapons inspectors access to eight "presidential" compounds including his palaces.

Speaking on television yesterday, both William Cohen, US defence secretary, and Mrs Albright said they would consider a deal with Mr Saddam only if it provided "full, unfettered, unconditional access" to the UN inspection teams charged with dismantling Iraq's weapons of mass destruction.

Mrs Albright said the US would keep an open mind about any deal the secretary-general might reach and she stressed that there were no "artificial deadlines" for a military strike against Iraq.

A UN official said yesterday that Mr Annan had consulted all five members of the security council, including the US, over the weekend and that he had the authority to conclude a deal.

UN officials said the deal would maintain the principle of unfettered access to presidential sites but through a revamped inspections regime which takes account of Iraqi concerns over sovereignty. It is assumed that the formula would include diplomats accompanying UN inspectors while Mr Saddam's "palaces" would be inspected more delicately than other buildings.

The major sticking point Mr Annan discussed with Mr Saddam was Iraq's demand that inspections be completed within two months. By the time Mr Annan came out of the meeting in Baghdad's Republican palace, however, progress appeared to have been made on this.

Britain sounded a conciliatory note yesterday when Robin Cook, UK foreign secretary, said sanctions against Iraq could be lifted soon if Mr Saddam reached an acceptable deal with Mr Annan. "If he really is willing this time to co-operate, that could be done in the fairly near future," Mr Cook told the BBC.

But as US and UK preparations for war proceeded, Arab opposition to the threatened air strikes increased the growing tension throughout the Middle East.

In Jordan, the army sealed off the city of Maan after two days of pro-Iraqi rioting and the authorities hinted they may impose a state of emergency.

In Abu Dhabi, Sheikh Zaid bin Sultan al-Nahayan, president of the United Arab Emirates, described US threats of military action as "bad and loathsome", and became the first Gulf Arab leader to say that Iraq does not pose a threat to its neighbours.

And in Moscow Gennady Zyuganov, leader of the Communist Party, said Washington was behaving like "a drunken sheriff acting as judge, jury and executioner". Russia is firmly opposed to military action against Iraq.

Iraq crisis, Page 3

A US soldier yesterday guarding the area of the Kuwaiti army Ahmad al-Jaber airbase where Patriot missile launchers are placed to defend aircraft ready to carry out strikes on Iraq Picture: Reuters

G8 takes up fight against unemployment

By Robert Taylor, Robert Chote and Wolfgang Münchau

An international programme to promote jobs and combat unemployment and social exclusion was agreed yesterday by the governments of eight of the world's most powerful economies.

It is the first time such an international conference has sought to integrate economic and social policies to tackle unemployment.

Finance and employment ministers from the Group of Seven leading industrial countries – plus Russia – said in London their new approach involves developing sound macroeconomic policies; structural reforms to *labour, capital and product mar*kets; and fostering entrepreneurship to help small and medium-sized enterprises.

"A new employment agenda is vital against the background of intensified global competition and technological advances," said Gordon Brown, the UK chancellor who presided over the conference.

At the previous day's G7 meeting, Japan came under pressure to give its economy a further fiscal boost. Finance ministers and central bank governors from the G7 dismissed last week's stimulus package as inadequate.

In its communiqué, the G7 stated bluntly: "In Japan, activity is low and the outlook is weak." *It added that the International* Monetary Fund believed there was now a strong case for fiscal stimulus to support activity during 1998.

Robert Rubin, the US Treasury secretary, urged Japan to do more to boost domestic demand, saying this would help the victims of the Asian financial crisis, which was also on the agenda.

Japanese officials said the IMF was particularly worried about the lack of stimulus in the second half of this year. But they insisted the impact of their recent fiscal measures had been underestimated.

"If they had been evaluated fully, they would not have been deemed insufficient," said Hikaru *Matsunaga, the Japanese finance* minister. He cited Y2,000bn ($15.8bn) in special income tax cuts and the latest measures to stabilise Japan's financial system.

In Japan yesterday, Koichi Kato, secretary-general of the ruling Liberal Democratic party, said the country was not now considering extra spending in the form of a supplementary budget but might take steps depending on economic conditions in April and May.

Turning to the economies of the other G7 members, the communiqué noted that growth had been strong in the US, UK and Canada, but domestic inflationary pressures had been weaker *than experience would have* suggested. Their authorities promised to act if inflationary pressures surfaced.

Meanwhile, growth in France, Germany and Italy was picking up and was increasingly driven by consumption and investment rather than exports.

"While this recovery will help to create new jobs, reducing unemployment to acceptable levels in these countries on a sustainable basis will require implementing further significant structural reforms especially in the labour market but also elsewhere in the economy," the communiqué said.

G7 reports, Page 4

Parmalat issues first euro convertible bond

By Edward Luce in London

Parmalat, one of Italy's leading food producers, this weekend launched the first equity-linked contract denominated in euros, the future European single currency.

The E252m convertible bond is expected to be followed by a wave of euro issues in the run-up to monetary union in Europe next January.

A convertible bond is debt that can be converted into the equity of the company which issues the bond if its share price rises above a pre-specified ceiling.

The convertible bond follows strong growth over the past year of the euro-denominated debt market, which has recently exceeded E150bn in outstanding issues (if Ecu-denominated bonds are included).

Bankers say the debt market has grown faster than the equity market because there is a more international market for bonds than shares.

"Equity still tends to be very dominated by domestic stock markets," said one analyst. "After Emu that will change."

Bankers say it is logical to issue equity-linked bonds in euros in light of the near-

Continued on Page 16
The jumbo bond, Page 24

This announcement appears as a matter of record only.

POLYGRAM FILMED ENTERTAINMENT

PolyGram Filmed Entertainment, Inc.

a wholly-owned subsidiary of

PolyGram N.V.

has acquired

Epic Pictures Enterprises, Inc.

and other companies together comprising a 1,044 title library of film catalogs formerly owned by

Consortium de Réalisation

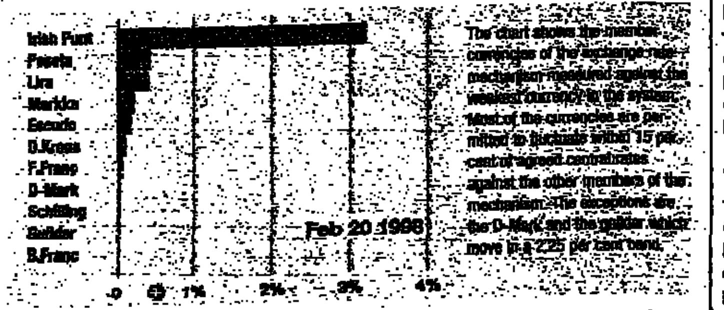
The undersigned acted as the financial advisor to PolyGram in the above transaction.

SOCIETE GENERALE

Société Générale Bannon, L.L.C.

January 15, 1998

EMS: Grid



The Irish punt continued its gradual fall towards its central rate on the EMS grid last week. Nine of the other currencies were within 0.45 per cent against the weakest currency on the grid, the Belgium franc. Currencies, Page 25

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COMMENT & ANALYSIS

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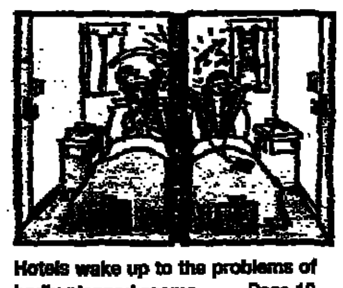


Hotels wake up to the problems of badly planned rooms Page 12

MANAGEMENT

MARKETING & MEDIA

BUSINESS EDUCATION

BUSINESS TRAVEL

FT.com: the FT web site provides updated news and an updated archive of back articles at http://www.FT.com

EU accession raises visa worry in east

E Europeans face travel restrictions once Hungary and Poland join Union, says Anatol Lieven

Eastern European countries are afraid that trade and contacts in the region will be hit by rules on travel which will come into force in Poland and Hungary when the two countries join the European Union.

At present, it is possible to travel without a visa between the two states and some eastern European countries which are also not members of the EU. This will not be possible under the so-called Schengen rules, which will apply to Poland and Hungary when the two countries join the EU.

Speaking last week at a conference in Kiev organised by the Institute for East-West Studies, ambassador Sergiu Celac of Romania said: "Schengen may create a more effective dividing line than anything seen since the cold war."

Romania, Ukraine and Belarus are likely to be especially badly affected. Last year Poland, under pressure from the EU, introduced a visa regime with Belarus, sparking demonstrations by tens of thousands of Polish and Belarusan traders. Poland still has a visa-free arrangement with Ukraine, but this will have to change when Poland joins the Union.

A senior European Commission official stressed that the terms of Schengen were not negotiable. "In the Treaty of Amsterdam, there is a requirement that new applicants take on Schengen in its entirety, and several present EU members will insist on that." He pointed out that border control issues were prerogatives of national governments, so that requests for changes would mean "going to talk with the German interior minister".

Polish and Hungarian officials are also expressing concern about the likely results of their accession to the EU. Poland regards the stability of Ukraine as a vital national interest and has put much effort into developing trade links. Hungary is worried that Schengen rules will create a new barrier between Hungary and the large Hungarian minorities in Romania, Slovakia and other states which are not likely to enter the EU for a considerable time.

Mr Celac fears this may lead Hungary to introduce special visa rules favouring ethnic Hungarians, threatening ethnic harmony in Romania. He said: "This is a danger which should be taken seriously at the level of the Union as a whole, because telling us to go and talk to the interior minister of Bavaria or wherever is not the kind of answer we expect from friends and allies."

But Polish and Hungarian representatives say that they do not expect to have much room for manoeuvre on this issue when they negotiate the terms of their membership with the EU.

"If we try to negotiate over this, the Spanish and others will use it to delay our entry or force us into second-class membership," said Prof Antoni Kaminski of the Polish Institute of Political Studies.

"So we will have to be more Catholic than the Pope over this question."

However, Prof Kaminski said that there was room for some flexibility within Schengen. Long-term multi-entry visas could be arranged for legitimate traders and people with family links in countries covered by the rules.

Other experts said that in the years before Poland and Hungary join, the EU must help to improve border supervision in the two countries.

"We've got it backwards," said Timothy Snyder of Harvard University.

"It is foolish to ask the present badly paid handful of Polish border guards to tighten Poland's eastern border."

EU members also needed to improve and co-ordinate their own visa services to make the application process less humiliating, according to Mr Celac. He said: "People should be able to see western consulates as a service, not a kind of Gestapo."

Chirac (left), Kwasniewski and Kohl bow their heads while reviewing a guard of honour outside Poznan's city hall Reuters

Chirac and Kohl back early Polish membership

By Christopher Bobinski in Warsaw

Poland's drive for early membership of the European Union received a powerful boost at the weekend from Jacques Chirac, the French president, and Helmut Kohl, the German chancellor, at a tripartite summit in the western Polish city of Poznan.

The support from France and Germany strengthens Poland's position prior to the start in six weeks of talks with Brussels over membership. The European Commission had signalled that Poland might not be able to join until the middle of the next decade.

The meeting was the first summit of the three countries. Meetings at ministerial level have been held since 1991, when the three foreign ministers met for the first time at Weimar in Germany to initiate a process which has become known at the "Weimar triangle". Yesterday Aleksander Kwasniewski, the Polish president, said the "Weimar" meetings had helped facilitate Poland's progress towards EU membership.

Mr Chirac said the 15 member states of the EU wanted Poland to join as soon as possible. Before arriving in Poland, he had said the EU should aim to allow Poland to join in 2000.

Mr Chirac added that early Polish membership of the North Atlantic Treaty Organisation was also a priority. Poland's application for Nato membership is in the process of being ratified by the parliaments of the 16 member countries.

Mr Kohl echoed the French president when he said: "Poland should find itself inside Nato and of course the EU as soon as possible."

He appealed to the Poles to make the economic and social adjustments necessary for EU membership. They had to change their mentality and drop habits acquired in their communist past.

Neither Mr Kohl nor Mr Chirac went as far as making concrete promises of funds to help finance the changes that Poland would have to make to qualify. Mr Kohl merely said that both France and Germany were ready to provide "support within a framework of the Poles supporting themselves".

Mr Chirac said Germany, France and Poland would play a role in building the "Europe of the future", implying that Poland, once inside the EU, would serve to maintain contacts with the eastern and central European countries still waiting to join.

Mr Kohl and Mr Chirac will next month meet Boris Yeltsin, the Russian president, in an attempt to initiate a similar triangular arrangement.

However, Mr Kohl signalled to his audience in Poznan that Germany and France would not enter into an agreement with Russia which harmed Polish interests.

Editorial comment, Page 15

Reformed Lithuania now ready to join, says PM

By John Thornhill and Matej Vipotnik

Lithuania's foreign minister will today try to convince his counterparts from the 15 European Union states that the country should be allowed to join the EU as soon as possible.

Disappointed by its exclusion from the shortlist of six applicant countries put on the "fast track" to EU membership at the Luxembourg summit last year, Lithuania has since been scrambling to reform its economy and harmonise its laws to European standards.

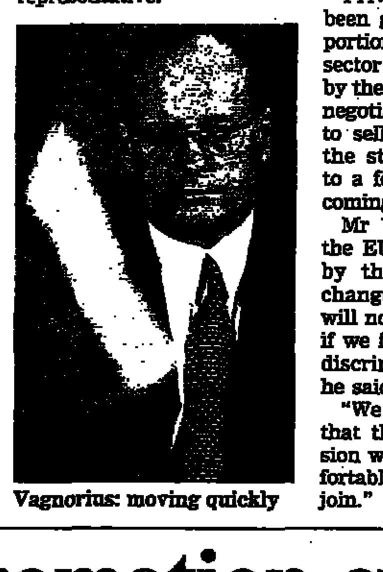
Lithuania thinks those efforts will allow it to make a convincing case in the foreign ministers' meeting today. In an interview with the Financial Times, Gediminas Vagnorius, the prime minister, said it was now ready to join the EU: "If the same criteria and the same requirements are applied to us as to the countries in the first wave, then we think that we have even better chances than some of those countries [to enter the EU soon]."

Mr Vagnorius said the election of Valdas Adamkus as president would give further impetus to the country's reform effort and strengthen its chances of gaining early admission to the EU. Mr Adamkus, a 71-year-old American-Lithuanian who strongly supports Lithuania's re-integration with western Europe and entry into the EU and the North Atlantic Treaty Organisation (Nato), last month scored a narrow victory in the presidential elections. "I personally believe that there are two major foreign policy issues: to make sure than Lithuania will become a member of the EU and Nato," he said in an interview.

On entering office later this week, Mr Adamkus finds an economy which has been making great strides to catch up with the other two Baltic states, Latvia and Estonia. While its northern neighbours embraced the free market in the aftermath of independence from the Soviet Union in 1991, Lithuania lost time in deciding how fast reform should proceed as alternating governments of ex-communists and conservatives half-heartedly liberalised the economy.

While the powers of his office are limited, Mr Adamkus has been arguing that the scope of the presidency should be extended in domestic policy. He appears determined to cut back bureaucracy by reducing the number of ministries from 17 to 11. He is considering appointing one of Lithuania's leading free-market advocates to the post of economic adviser.

With reforms now under way, Lithuania's economy grew 6 per cent last year, and a report published by the European Commission last autumn forecast that the country of 3.7m was likely to have higher rates of economic growth over the next two years than any of the other nine applicant countries in central Europe. "If the current prudence on the fiscal side is maintained the economy should continue to grow," said Adalbert Knöbl, the International Monetary Fund's resident representative.



Vagnorius: moving quickly

Mr Knöbl added: "Significant amounts of foreign direct investments are now for the first time flowing into the country."

But foreign investment and faster economic growth are still hampered by opaque regulations and a sprawling bureaucracy, foreign investors say. The rules are hardly attuned to the needs of a free-market economy.

In his State of the Nation report to parliament last week, Lithuania's outgoing president, Algirdas Brazauskas, echoed the concern of the European Commission when he complained about the slow pace of privatisation. He said the ministries were hindering the privatisation of state-owned companies. To grapple with obstacles to reform, Mr Adamkus has argued that the limited powers of the presidency should be extended in domestic policy.

Mr Vagnorius said his government was moving to address these and other shortcomings identified by the European Commission in order to qualify for EU membership as early as possible. The government had renewed the legal framework for business and pressed ahead with the privatisation of several large state-owned companies.

Privatisation has slowly been gaining momentum. A portion of the state banking sector should be privatised by the end of this year, while negotiations are under way to sell Lithuanian Telecom, the state-owned monopoly, to a foreign investor in the coming months.

Mr Vagnorius hoped that the EU would be impressed by the pace of economic change in Lithuania. "We will not be discouraged even if we feel that there is some discrimination against us," he said.

"We will move so quickly that the European Commission will find it very uncomfortable not to invite us to join."

EU states criticised over sales promotion curbs

By Emma Tucker in Brussels

Direct marketing associations want pressure applied to European Union states which place limitations on companies that want to promote sales through schemes such as loyalty cards, sweepstakes and gifts.

The Federation of European Direct Marketing (Fedma) says variations among national laws mean companies cannot offer the same sales promotion campaigns across the EU, but have to invest heavily in local and national legal advice to avoid difficulties.

"Sales promotion regulations vary so widely in the EU that they constitute a serious distortion to intra-EU trade," the association said.

Germany, which has particularly restrictive laws against sales promotions, is Fedma's chief target. The federation believes the European Commission has failed to act on complaints brought against Germany because of political pressure from inside the Commission.

One complaint involves a record club owned by Polygram, whose introductory "three for the price of two" offer fell foul of German restrictions. The club moved to the Netherlands but was still unable to send mail shots to German consumers.

American Express and a company called Airmiles International have also complained about discrimination because they are not allowed to offer airmiles schemes. The cases have been before the Commission for over four years.

Separately, Brussels is expected to adopt a general position on direct marketing over the next few weeks. This is likely to suggest setting up a committee of government experts to study cases where national regulations distort the single market, and to assess whether the rules are justified.

If the rules are found to be a barrier to the single market, the Commission would put pressure on the member state and could ultimately take court action.

Brussels has shied away from harmonising legislation, as the regulations and their legal basis vary so greatly from country to country.

Germany and Luxembourg have the most restrictive laws against sales promotions. In Germany companies are prohibited from "creating exaggerated attraction" when offering gifts. This includes a definition of the monetary value of a gift (DM7, or $3.90).

The use of lotteries, sweepstakes and games of chance to promote sales is also complicated by differing laws. In the UK, such techniques are considered to be a form of gambling and are heavily regulated.

In Italy, the finance ministry must give permission for any premiums which offer money or for loyalty schemes such as the awarding of airmiles.

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R

Yugoslav leader may gain from backing the Bosnian Serb moderates

US planning reward for Milosevic

By David Buchan in Washington

In a shift in policy towards the Balkans, the US is moving to reward Slobodan Milosevic, the Yugoslav president, for his support of the new moderate Bosnian Serb government.

However, the US will not go as far as lifting the main international sanctions on the rump Yugoslav state.

Robert Gelbard, the special US envoy on the Balkans, is due to see Mr Milosevic in Belgrade today. In an interview before he left Washington, Mr Gelbard said the US was "clearly signalling" its appreciation of Mr Milosevic's support for the Bosnian Serb government of the prime minister, Milorad Dodik.

Mr Gelbard added that he would discuss concrete forms this appreciation might take in today's meeting, though he refused to give details.

The Gelbard mission to Belgrade follows Mr Dodik's highly successful visit to Washington late last week. After meeting the new Bosnian Serb premier on Friday, Madeleine Albright, the secretary of state, called him "a breath of fresh air", and promised him an immediate $5m in balance of payments support.

Mr Gelbard forecast the US would this year give the Republika Srpska (RS) – the Serb component of the Bosnia-Hercegovina federation proposed under the 1995 Dayton peace accords – $50m in infrastructure assistance as well as food aid. Mr Dodik also discussed new project aid with the World Bank.

US officials say the prospects of Bosnia as a whole getting a $60m structural adjustment loan from the World Bank and a $90m standby credit from the International Monetary Fund now depend in part on the Moslem-Croat component of the state showing greater financial transparency.

This is a significant shift for Washington, which has hitherto been the main foreign champion of the Moslem-Croat joint entity inside Bosnia.

Mrs Albright endorsed Mr Dodik's desire for the republic of Croatia to unseal its border with the RS. Washington will now try to press Zagreb into restoring trade links with the Bosnian Serbs.

For his part, Mr Dodik was said to be ready to work with the US in persuading more indicted Bosnia Serb war criminals to surrender themselves for trial at the tribunal in The Hague, as two did last weekend.

US officials hope that one day they can persuade Mr Milosevic to orchestrate similar voluntary surrenders inside Serbia. For the moment, though, they see no sign that he is ready to hand over the three Yugoslav army officers indicted by The Hague. They complain that General Ratko Mladic, the Bosnian Serb war commander, one of the most wanted war crimes suspects, has now taken refuge inside Serbia.

The US still believes the "outer wall of sanctions" should remain around Yugoslavia, barring it from the United Nations and from IMF and World Bank money. It envisages the sanctions remaining until Belgrade settles outstanding debt and asset issues, improves human rights and, above all, embarks on a dialogue with the Albanian majority in its Kosovo province.

NEWS DIGEST

Turkish party being disbanded

Turkish authorities have begun disbanding the pro-Islamist Welfare party, after the country's constitutional court published in the official gazette the text of its ruling last month that closed down Turkey's biggest party for agitating against the secular order.

Necmettin Erbakan, 71, the party's leader, and four other Welfare members now lose their seats in parliament and begin a five-year ban on political office. The treasury will take over the party's assets. Welfare's 147 MPs, who form the largest bloc in parliament, will sit as independents. Mr Erbakan and other party officials may now face further charges for sedition and contempt of court.

Mr Erbakan has said Welfare will appeal to the European Court of Human Rights, although the constitutional court's president said last year that Turkey would not recognise its ruling on this case. *John Barham, Ankara*

■ OIL REPORT

Threat to profitability

Demand for refined oil products is growing steadily but the profitability of oil refining is threatened by environmental concerns, excess capacity and increased competition, the International Labour Organisation says in a report published today*.

The world's 1m oil workers, who traditionally have had higher pay and better working conditions than many other workers, also face job losses due to new technology and the global move to privatisation.

The report, produced for an ILO meeting this week of governments, trade unions and employers from 19 countries, says eastern Europe and Latin America will be worst affected by changes. *Frances Williams, Geneva*

* *Employment and industrial relations issues in oil refining. Available from ILO publications, CH-1211 Geneva 22, SFr17.50.*

■ 'POISON' ARRESTS

'Anthrax' deemed harmless

The vials of suspected anthrax seized last week from two Nevada men who were later arrested contain a harmless veterinary vaccine that is no threat to people, laboratory tests have shown.

Army scientists said the vaccine could not be converted into harmful "military-grade" anthrax and used as a weapon. "There is no reason for anyone to be concerned about contaminants," an FBI agent said.

There had been fears that the two were planning a terrorist attack using the poison, possibly in New York.

One of the two suspects was released following the tests, but Larry Wayne Harris, a microbiologist who has previously been convicted of fraudulently obtaining bubonic plague, remained in custody pending a formal hearing today. *Mark Suzman, Washington*

■ RUSSIA-UKRAINE

Ten-year economic pact

Economic ties between Russia and Ukraine are set to tighten further this week when a 10-year economic agreement is signed in Moscow at talks between Leonid Kuchma, Ukraine's president, and Boris Yeltsin, Russia's president.

As a result of the agreement, trade between the two countries should grow 2.5 times by 2007, according to Victor Chernomyrdin, Russia's prime minister, who was in Kiev on Friday to initial the agreement.

Details of the agreement are sketchy, though it is said to include the framework for co-operation between several Russian and Ukrainian factories. *Charles Clover, Kiev*

Emerging markets: Buyer is king in Ukraine, Page 24

■ INDIA

Uttar Pradesh rulers sacked

The second voting day in India's elections was overshadowed yesterday by a row over the surprise weekend dismissal of a Bharatiya Janata Party-led state government, a move which prompted Atal Bihari Vajpayee, BJP prime ministerial candidate, to declare a "fast unto death" in protest.

Voting was largely peaceful in the 183 of India's 543 constituencies which have polled, though reports of shootings and other violence again emerged from northern Bihar state, taking the death toll in the state to 24 since the first round of voting on February 16.

But the political focus lay in Delhi and Uttar Pradesh state, India's most populous, after the dismissal late on Saturday of the state's BJP government by Romesh Bandari, the state's governor. Mr Bandari dismissed the four-month-old government after rival parties claimed the BJP no longer enjoyed a majority in the state's 425-seat house.

The move sparked immediate protests from the BJP, whose president, Lal Krisna Advani, met K.R. Narayanan, India's president, yesterday to urge the dismissal of the UP governor. *Mark Nicholson, Madras*

■ SLOVAKIAN PRESIDENCY

Referendum to be rerun

President Michal Kovac has announced a re-run of a referendum to have the Slovak president directly elected, as two more candidates set about the hopeless task of winning the support of three fifths of parliament.

Mr Kovac backed a referendum last May to avoid a constitutional vacuum when he steps down on March 2 but the interior ministry removed the question from ballot papers. The constitutional court said last week the ministry had acted unlawfully.

Earlier this month a first attempt to elect a president failed. On Friday two candidates – Ladislav Ballek and Milan Fogas – were nominated for a second attempt on March 5 but neither is likely to win because the ruling party of the prime minister, Vladimir Meciar, has a blocking vote in parliament.

Mr Meciar, who is trailing the opposition in opinion polls with elections due in September, is reported to be considering standing himself in a future round, but he needs the support of some opposition deputies. If no president is elected by the time his longtime foe, Mr Kovac, steps down, Mr Meciar will in any case take over most of his powers. *Robert Anderson, Prague*

■ GERMAN PAY

Kohl calls for flexible deals

German Chancellor Helmut Kohl said yesterday he supported greater flexibility in wage agreements, as he entered the controversial debate about how to get the country's record number of unemployed back to work.

Mr Kohl, who seeks re-election for a fifth consecutive term in September, ruled out being part of a grand coalition between his Christian Democratic Union and opposition Social Democratic party should the election prove inconclusive. In an interview with German television channel Pro7, Mr Kohl said he was confident of winning the general election with a higher vote than he did four years ago.

Mr Kohl said unemployment had reached its peak in western Germany but remained a severe problem in the new *Bundesländer* in the east. But he said it was up to the country's powerful labour unions and employer organisations, not the government, to strike more flexible agreements to create jobs. *Graham Bowley, Frankfurt*

Economics Notebook, Page 8

NEWS: THE IRAQ CRISIS

Jordan may declare state of emergency

Tough response to pro-Iraq demonstrations

A protester in Maan, Jordan, yesterday holds a tear-gas gun seized from police in earlier pro-Iraq demonstrations Reuters

Jordan yesterday responded firmly after a weekend of pro-Iraq demonstrations, hinting that it might introduce a state of emergency.

A clampdown was also enforced in the West Bank where further protests prompted the Palestinian Authority (PA) to close several private television stations.

However, the tough action by King Hussein of Jordan and Yassir Arafat, PA president, in continuing to oppose the protests, reflects the difficult balancing act they face in their efforts not to alienate either US or Arab support.

King Hussein rebuilt fences with the west after he refused to support the US-led coalition against Iraq during the 1991 Gulf war. Mr Arafat, who sided with President Saddam Hussein, was recently told by the US State Department to curb pro-Iraq protests in which youths burned US and Israeli flags.

Some of those demonstrations have been organised by Fatah, Mr Arafat's dominant faction within the Palestine Liberation Organisation.

Palestinians increasingly resent what they see as inconsistent US policy which demands that Iraq comply with United Nations resolutions. They believe Washington turns a blind eye to Israel's disregard of any UN resolutions. Mr Arafat, for the moment, feels he cannot alienate Washington.

But the demonstrations in the West Bank and Jordan at the weekend were far from similar, even though 60 per cent of Jordan's population is of Palestinian origin.

The clashes which occurred in the Jordanian city of Maan, in which one person was killed, have little to do with Palestinians, or for that matter, the Israeli-Palestinian conflict. The causes are partly economic and partly tribal.

Maan is about 250km south of Amman, the Jordanian capital. Most of the 40,000-strong population is Bedouin with strong clan links with Saudi Arabia. The unemployment rate is high, infrastructure is poor and, as International Monetary Fund-backed structural reforms bite, the plight of the less well-off deteriorates.

The protests at Maan highlighted some of those frustrations, doubly embarrassing for King Hussein since the Bedouins have been promoted during his reign and this is the second time in 19 months that Bedouin-inspired riots have pushed the regime to introduce harsh security measures.

Jordanian officials yesterday said the king could not take any risks, as refugees start crossing the border from Iraq, and aid agencies are preparing for the worst if the US bombs Iraq. Jordan said it would close its border to refugees but the long border, notorious for smuggling, is impossible to make watertight.

"If the stability of our country is jeopardised, we would consider taking those measures necessary to protect our stability," an official said, confirming remarks by Abdul Salam al-Majali, prime minister, who yesterday said Jordan might have to declare a state of emergency if hostilities broke out in the Gulf.

Judy Dempsey

Kurdish warlords seek an uneasy truce

By John Barham in Ankara

The Kurdish warlords who control northern Iraq are abandoning, if only temporarily, their violent struggle for supremacy in the enclave in the face of attack by Iraqi government forces in the south and intervention by Turkey in the north.

Representatives of the Kurdistan Democratic party (KDP) and Patriotic Union of Kurdistan (PUK), which have fought each other intermittently since wresting the region from Baghdad's control in the aftermath of the Gulf war, last week held a second round of peace talks.

For four hours, delegates discussed confidence-building measures, such as improving electricity supplies and easing movement of civilians across the front line that divides the region.

President Saddam Hussein attempted to destroy the Kurdish *peshmerga* guerrillas as they rose up in revolt in 1991 after the Gulf war.

The fighting drove 1m refugees into the mountains, where many froze to death as they fled to Turkey.

International intervention led by the US and UK stopped Iraq's offensive by establishing a no-fly zone in northern Iraq and creating "safe havens" there for the Kurds.

Although both Kurdish groups have fought Baghdad – and each other – for decades, they never lost contact with Mr Saddam.

In September 1996, the KDP allied with Iraqi government forces to dislodge PUK *peshmerga* from the region's capital Arbil.

That led to a brief US missile attack on targets in southern Iraq. The fighting soon stopped. Iraqi troops withdrew, after agents of the Muhabarat secret service executed Iraqi Arab rebels of the US-backed Iraqi National Congress based in the Kurdish north.

Now Turkey is becoming even more closely involved in northern Iraq. It has mobilised thousands of troops along its 240km border with the region to prevent an influx of refugees and, possibly, to prevent any change in the regional balance of power.

Bülent Ecevit, Turkish deputy prime minister, rejected pleas from the United Nations High Commissioner for Refugees for Turkey to keep its borders open.

"It is impossible for us to let them in," he said. "But there is no need for concern. Turkey has the capability to protect them from across its borders."

The Turkish Red Crescent, working with the military, has stocks of food and tents for 100,000 people, which they would send to refugees on the Iraq side of the frontier.

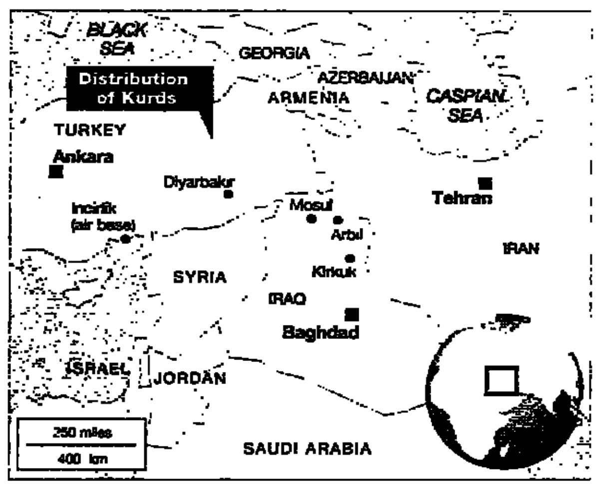
Ankara has forged an uneasy alliance with Mullah Mustafa Barzani's KDP which controls the northern section of the Kurdish enclave along the frontier with Turkey.

In exchange for Turkish financial, military and logistic support, his *peshmerga* are expected to prevent infiltration of their territory by guerrillas of the Kurdistan Workers party (PKK), who are waging a war which has lasted 13 years in Turkey's mainly Kurdish south-eastern region.

Turkish forces regularly cross into Iraq to pound areas suspected of harbouring PKK fighters, forcing the guerrillas to retreat to mountain areas.

Turkey now maintains a permanent military presence in the area. Turkish officials often state they want to establish a 10km-15km-deep *cordon sanitaire* inside Iraq to prevent attacks by the PKK, only to backtrack in the face of angry protests from Baghdad and other Arab capitals.

Many Turkish politicians, including Mr Ecevit, suspect the enclave is the precursor of a fully-fledged western-backed Kurdish state that would claim a large portion of Turkey's territory in the south-east.



However, a week ago, Tony Blair, British prime minister, called Mesut Yilmaz, his Turkish counterpart, during a session of the Turkish cabinet to deny formally that London supports a Kurdish state.

Still, Ankara says it would not allow British and US aircraft based at the Incirlik airbase to enforce the no-fly zone over northern Iraq to launch bombing attacks against Iraq.

However, Nuzhet Kandemir, Turkey's ambassador to Washington, said last week that parliament could approve within 24 hours a US request to launch air raids from Turkey.

He also said Turkey would consider any request from Israel, its close ally, to overfly Turkish soil to retaliate against Iraqi missile attacks on Israel.

Uncertainty hits business in the Gulf

By Robin Allen in Dubai

The Iraq crisis has injected an additional element of uncertainty into Gulf business, already hit by falling oil prices and turmoil in Asian countries, which are both customers and financiers for much of the region's trade.

Container lines and shipping companies which operate feeder services into the Gulf are reported to be considering applying higher rates in anticipation of an insurance surcharge if the US mounts an air strike against Iraq.

"As yet, rates for cargo are unchanged," one Gulf insurer said yesterday. "But underwriters have given 30 days' notice of a change in hull and machinery rates, which are likely to go up in the event of any hostilities."

Yet the UN stand-off with Iraq is the least important of several factors, both short- and longer-term, affecting the scale of investments in the wider Gulf area.

Other disincentives with more lasting implications are the rising cost of office accommodation and daily living, and heavy-handed bureaucracy. In addition to these factors is "the bigger, indirect effect from the turmoil in Asia, which has changed the whole attitude to investment in emerging markets everywhere," said Kevin Taecker, chief economist at Saudi-American Bank in Riyadh.

Other Saudi-based bankers say the government's delay in announcing its investment law, which is expected to introduce more incentives to private sector foreign investors but which is not due out until next year, is also a greater deterrent than the immediate threat posed by Iraq.

"There has been no withdrawal of funds from the area," said Christopher Powell, regional manager of Netherlands merchant bankers MeesPierson. Western fund managers who run unit trusts and other "opportunity" funds report no rush to sell out of the few Gulf funds that exist. This could change quickly if, as many fear, US-led bombing leads to more, not less, Iraqi defiance of the UN, and inflames popular opinion in the wider region.

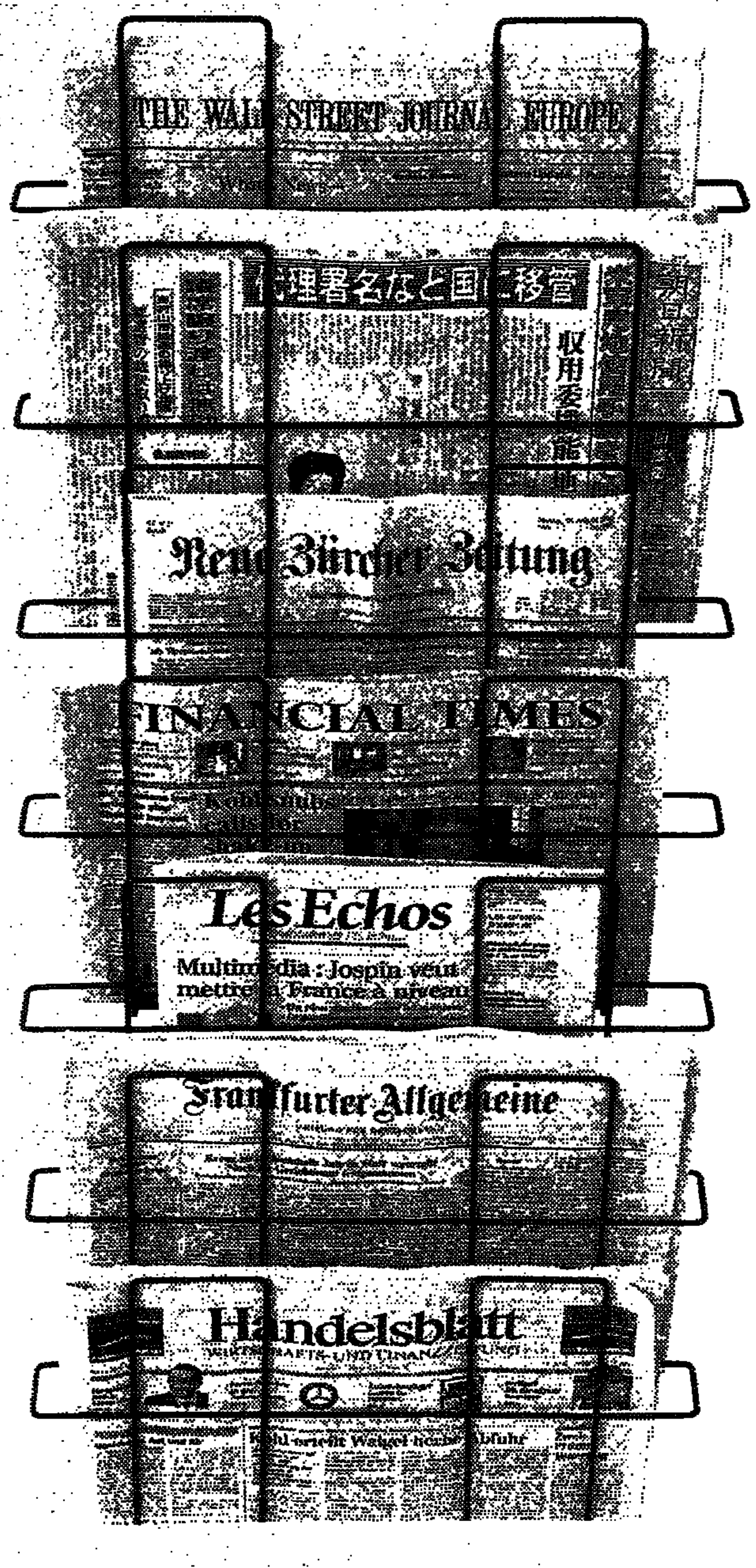
"A US-led assault is the last thing we need at the moment," said Abdul-Aziz al-Dukheil, chairman of the Riyadh-based Consulting Centre for Finance & Investment. "We are not sure that bombing or striking Iraq is going to eliminate or minimise the problem."

Hotels in Abu Dhabi and Dubai, the two richest of the states comprising the United Arab Emirates (UAE), report a "sudden" fall of up to 50 per cent in hotel occupancy. Retail businesses which depend on German and Russian tourists report "a significant drop" in business.

In the last week regional stock markets in Bahrain, Kuwait, Oman, and Saudi Arabia have fallen off by between one and three per cent on top of downward movements the previous week. However, profit-taking after last year's buoyant performance and lack of confidence from falling oil prices are as much blamed as the Iraq crisis.

"How a bank or investor reacts to the Iraq crisis," said Abdul-Aziz al-Ghurair, chief executive of Dubai's MashreqBank, which has just reported record earnings for last year, "depends on whether your interest is short- or long-term.

"We have 60 per cent of global oil reserves in this area. We have lived through two regional wars in the last 16 years, and they had no impact on the long term. This crisis cannot be worse than the last Gulf war in 1990-91, since when we have had sustained growth." Many Gulf Arab and western bankers agree with him.



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GROUP OF SEVEN MEETING

Export credit agencies give pledge

By Robert Chote, Economics Editor

Export credit agencies from the Group of Seven leading industrial countries said at the weekend that they would extend support to the victims of Asia's financial crisis, but without saying how much trade insurance would be made available.

The G7 agencies promised to "continue provision of, and where appropriate extend, short-term insurance, guarantees and reinsurance to creditworthy buyers in the region". At a meeting in London on Friday, their initiative was supported by agencies from another 12 countries.

The only agency to quantify its support was the US Export-Import Bank. James Harmon, Exim Bank president, said short-term support for Thailand was already being raised from $50m to $750m – and under the right conditions this would climb to $1bn.

"I would recommend to the board that, under the appropriate circumstances, we do the same for Korea and Indonesia," he added.

Mr Harmon said the $3bn extended to these countries might be turned over relatively quickly so that it could support exports worth $12bn. In 1996 and 1997 the G7 agencies supported $15bn in short-term credits to Korea, Indonesia and Thailand together. Last week officials in Tokyo predicted that Friday's meeting would produce pledges of $10bn-$15bn in credits.

Short-term credits are regarded as vital if trade is to continue flowing in these countries. Businesses have been hit hard by an inability to obtain letters of credit from banks in the crisis-affected countries, which are undercapitalised and weighed down by bad loans. Without letters of credit, producers can neither import raw materials nor get working capital to export their own products.

Mr Harmon warned that agreeing to extend support was much easier for Thailand and Korea than for Indonesia. He hoped that compliance with the International Monetary Fund's reform package would allow the agencies to support Indonesia more aggressively. "All of us are rooting for stability and all of us are wanting to be supportive."

The agencies also promised to increase co-operation among themselves "in addressing the difficulties which some corporations in the region are facing in managing their existing foreign currency debt obligations".

The agencies also said they would share information on market developments and progress on reform measures.

Robert Rubin, US treasury secretary, listens intently at the weekend's G7 meeting Reuters

Tokyo drags its feet over fiscal boost

By Gillian Tett in Tokyo

Japan's economic weakness may have dominated the Group of Seven meeting in London at the weekend. But in Tokyo, Japanese politicians had other things on their minds.

As the weekly current affairs chat shows got under way on television, the main topic for discussion was bickering inside Japan's political parties – and a recent suicide. US criticism of Japan's economic policies was mentioned only briefly.

The contrast is ominous. As Asia's financial woes continue, the weakness of Japan's economy is posing an increasing risk to the region. What is doubly frustrating for Japan's trading partners is Tokyo's apparent reluctance – or inability – to respond with speed and boldness.

When the first signs of economic slowdown appeared last summer, for example, Japan denied the problem.

Since then Tokyo has announced four packages; a drip feed of measures or, as some have described it, a policy "striptease". But few, including Japan's main trading partners and the markets, have been satisfied.

The most recent offering – made on Friday and featuring measures ranging from corporate share buy-backs to moves to boost real estate securitisation – will not be the last. Senior politicians in the ruling Liberal Democratic party (LDP) are hinting they will produce a "fifth" package next month.

But none of the packages has delivered what Japan's trading partners desperately want to see – a comprehensive fiscal boost to stimulate domestic demand.

Although the LDP has hinted it may produce more tax cuts, Hikaru Matsunaga, finance minister, failed to give a commitment at the G7 meeting in London. He insisted the issue could not even be discussed until the 1998 budget was passed by parliament next month.

To the outside world this protracted policy "striptease" looks odd – and ineffective.

Many Japanese reply that their government's response has a cultural dimension as Japan is a country where decisions are taken after painstakingly building consensus.

Yet even the cultural factor is losing its force because of a broad shift in the political environment.

For decades it has been the bureaucrats who dominated Japanese policy. But they have been steadily losing power under attempts by Ryutaro Hashimoto, prime minister, to reform the system of governance. The Ministry of Finance has been a particular casualty, seeing its influence eroded by recent corruption scandals.

While politicians have been moving in to fill the power gap, they appear ill-equipped to deliver sudden policy changes. The LDP is riven with factional disputes and the popularity of Mr Hashimoto, who came to power pledging to cut the budget deficit, is at a record low.

With an election for the upper house of parliament looming in July, he seems reluctant to produce another policy U-turn – the first being his announcement of Y2,000bn ($15.7bn) of income tax cuts in December – without first building a political and national consensus.

Optimists hope the Asian crisis will give him a face-saving way to present another U-turn. When he announced his income tax turnaround, for example, he specifically linked it to the "Asian problem".

But the US criticism of Japan at the weekend may complicate, rather than encourage, such a shift.

Dateline Tokyo, Page 8; Tokyo stock market and Currencies, Page 23;

Jobs agenda welcomed by trade unions

By Robert Taylor, Employment Editor

The new jobs agenda adopted at the Group of Eight "jobs summit" at the weekend has been widely welcomed by international trade unions.

Union leaders said the final communique was a recognition by G8 leaders – the G7 plus Russia – that trade unions and employers had to be included in a global employment and growth strategy.

What was agreed came close to the initial manifesto set out by the trade unions at the Organisation for Economic Co-operation and Development.

The key commitment was to recognise "the important contribution made by international trade in expanding earnings and employment opportunities for workers, in an environment that fosters labour rights and education and training opportunities".

Gordon Brown, the UK chancellor of the exchequer, who hosted the conference, said: "This is the first attempt to integrate economic and employment policies at international level."

G8 governments affirmed their belief in "global progress towards implementation of internationally recognised core labour standards".

They said this involved continuing collaboration between the World Trade Organisation and the International Labour Organisation as well as full backing for this summer's International Labour Organisation declaration that will ask all countries to affirm support for the core labour standards and their implementation.

The London conference also emphasised the need to encourage lifelong learning, back equal opportunities and oppose measures of discrimination against workers. Action through education and training to tackle long-term unemployment, especially among the young, was also endorsed.

In addition, strong support came for reforming the tax/benefit systems to foster growth and employment and backing for welfare to work programmes through active labour market policies.

Everybody also signed up to the need for structural change through the removal of regulatory barriers and reducing the tax burdens on small and medium-sized companies.

Even France agreed to "promote adaptable, efficient and equitable working time arrangements" though little support was found for the French decision to legislate a 35-hour working week.

G7 ministers see little need to sound alarm over Asia

The international institutions' approach to the crisis wins approval, write **Robert Chote** and **Wolfgang Münchau**

As long as the casualties of Asia's financial crisis reform their economies, the region should return to vigorous growth in the medium term and the impact on the rest of the world this year should be manageable.

This relatively upbeat conclusion was reached by finance ministers and central bank governors from the Group of Seven leading industrial countries during a meeting at London's Lancaster House at the weekend.

Short-term concern focused on prospects for reform in Indonesia and the government's proposal to adopt a currency board, which would peg the rupiah to the dollar and stop the central bank printing money.

A communiqué issued by ministers did not refer explicitly to Indonesia, but delegates made it clear they thought a currency board would be premature. "At some point, possibly, but not now," said Eddie George, governor of the Bank of England.

The communiqué supported the approach taken in Asia by the international financial institutions, which have been accused by some of enforcing reforms not strictly necessary to restore capital flows.

Delegates welcomed institutions' "emphasis on structural reforms to reduce inappropriate government interference in the market economy, restructure financial systems, promote integrity and transparency and fight corruption in order to lay the basis for recovery".

They said humanitarian expenditure should be protected as far as possible, including affordable social safety nets. The International Labour Organisation's work in promoting labour standards was also applauded.

Gordon Brown, the UK chancellor of the exchequer, said the G7 would engage in a "profound and broad-ranging debate" on the longer-term lessons of Asia's crisis.

Emerging-market countries and private sector players would also be consulted to review ways to strengthen the international monetary system. A progress report will be presented to a summit of G7 leaders in Birmingham in May.

The communiqué said attention would initially focus on five areas:

■ Measures to promote more efficient functioning of global markets. This includes ensuring the appropriate supervision and regulation of financial markets to safeguard the soundness of banks and other financial institutions. Recent G7 summits have already urged greater co-operation between national regulators.

■ Measures to improve transparency and disclosure. The G7 wants to see improvements in the timeliness, accuracy and coverage of national statistical reporting, as well as greater transparency in policy-making and improved corporate governance and disclosure in the private sector. It urged the International Monetary Fund to strengthen its data dissemination standards and to prepare the code of conduct on fiscal policy transparency proposed in Hong Kong last year. IMF arrangements should also be transparent and accountable, it said.

Hans Tietmeyer, the Bundesbank president, stressed the need for countries to provide more information on the size and maturity of foreign currency borrowings. He said that monthly figures should be produced and that industrial countries should also indicate how much their institutions lent to emerging-market economies.

■ Strengthening financial systems. The operation of these systems needs bolstering nationally and internationally. The IMF should also amend its articles of agreement to promote capital liberalisation "to help countries implement reforms with appropriate sequencing, taking account of the strength of financial systems".

■ The role of the international community. Countries should respond quickly to IMF advice "to prevent economic problems from turning into crises and to prevent contagion to other countries". The G7 also urged early progress on increasing the IMF's capital base and its emergency credit lines, both of which have been agreed internationally but are encountering problems in the US Congress.

■ Steps to promote appropriate burden-sharing by the private sector. "With hindsight it is clear that the private sector's judgment has been inadequate in a number of instances," the G7 said.

The communiqué said the private sector should "share both the profits and losses appropriately", reflecting concerns that western banks have been let off lightly because of the rescue packages in Asia.

The G7 called for measures "to ensure an orderly involvement of the private sector in the resolution of financial crises".

Howard under fire for halting Malaysia trip

By Gwen Robinson in Sydney

The cancellation by John Howard, Australian prime minister, of his first official visit to Malaysia was yesterday criticised by the opposition.

Critics said Mr Howard, who was due to leave yesterday, wanted to avoid the embarrassment of being in Malaysia, south-east Asia's second-largest Moslem country, should western forces launch an attack on Iraq. Mahathir Mohamad, the Malaysian leader, is opposed to the US-led military build-up in the Gulf.

Mr Howard said he had postponed his regional visit – which was also to have included Papua New Guinea – because of the Gulf crisis and the possible involvement of Australian forces in military action against Iraq.

The announcement came soon after the prime minister said Australia should have a more active diplomatic role in the regional economic crisis and lobby the International Monetary Fund and Group of Seven leading industrial nations to relax elements of the Indonesian financial rescue package.

"It has become quite obvious to me that crucial decisions... might need to be taken during the next week and I would not want the possibility to arise of those decisions being required during my absence from Australia," he said.

Australia last week dispatched a squadron of Special Air Service troops to the Gulf as well as additional military personnel and equipment, in its first deployment of ground forces in a potential conflict since the Vietnam war.

Australia's relations with Malaysia have been wary, at best, and acrimonious on occasion – particularly after Paul Keating, the former prime minister, described Dr Mahathir as "a recalcitrant" for boycotting a regional summit in 1993.

More recently Dr Mahathir opposed Australia's attempt to join the Asia-Europe Meeting (Asem) forum. Australia, meanwhile, drew further Malaysian displeasure by supporting the IMF's regional economic prescriptions.

The opposition Labor party, which supported the government's decision to commit troops, said the stand-off in the Gulf was the very reason Mr Howard should proceed with his trip, in order to explain Australia's position to Dr Mahathir.

Gareth Evans, Labor's deputy leader, said it would be more awkward for Mr Howard to make his visit after a military strike against Iraq.

CONTRACTS & TENDERS

CORRIGENDUM

Privatisation of

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Further to the advertisements published in various newspapers regarding the **Privatisation/Sale of PTDC Hotels** scheduled for **March 05, 1998,** the following Corrigendum is issued for the information of all the prospective bidders:

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2. Prospective bidders must register themselves for the bidding and purchase the Bid Documents by depositing the prescribed processing fee no later than **March 03, 1998,** at the address given below. However, all prospective bidders are strongly advised to register and collect the Bid Documents as soon as possible so as to ensure that all the requisite formalities are properly completed.

Ejaz Ilahi Piracha, Joint Secretary
Privatisation Commission, Government of Pakistan.
EAC Building, 5-A Constitution Avenue,
Islamabad, Pakistan Phone No. 9205369

Fifa faces rift over presidential election

By Jimmy Burns in London

Fifa, world football's governing body, is being threatened with a potentially divisive dispute over the future of its presidency – one of the most powerful jobs in international sport.

The association's outgoing and long-serving president, the autocratic and controversial Joao Havelange, has been forced to call an extraordinary meeting of the 24-strong executive committee on March 13 in response to mounting concern about the way his succession is being handled by Joseph "Sepp" Blatter, general-secretary.

Fifa's Zurich headquarters – from where Mr Blatter administers much of world football's political and financial affairs – issued a curt statement at the weekend confirming the only item on the agenda of next month's meeting. "The item will be the position of the general-secretary in relation to the Fifa presidential election," a spokesman said.

It has emerged that Mr Havelange was forced to convene the meeting after 13 members of the executive committee demanded Mr Blatter clarify his position regarding the election.

Although Mr Blatter has yet to declare himself a candidate, some executive members believe he has been abusing his position as general-secretary to broaden his support.

"There is a belief that there is a potential conflict of interest. Blatter should either declare himself a candidate and resign as general-secretary or simply say he is not running," one Fifa insider said.

Those who have decided to force the issue by demanding an extraordinary meeting are thought to be executive Fifa members representing the European and African football federations. Significantly both groupings have declared they are backing Lennart Johansson, the president of Uefa, European football's governing body, as future president of Fifa.

Mr Johansson is, so far, the only person to have declared officially his candidacy for a succession that is meant to take place during this summer's World Cup in France. There is an April 7 deadline for nominations.

Mr Johansson has been one of Mr Havelange's most outspoken critics during the last three years, when Mr Blatter effectively ran Fifa. The Swedish-born Mr Johansson has been campaigning for a "fairer and more accountable" executive structure within the association.

Some of Mr Johansson's supporters fear Mr Blatter is putting himself forward as a continuity candidate with the tacit support of Mr Havelange. Were Mr Blatter to declare himself a candidate, there could be a deeply polarised presidential contest in the run-up to the World Cup. Fifa's general-secretary has considerable administrative and financial powers, which extend to the negotiation of marketing and broadcasting rights linked to Fifa tournaments.

Havelange: called meeting

Business Week

In this week's issue

- The year 2000 - what effect will it have on your earnings?
- While corporate Asia reshapes, American companies gain strategic ground
- EU officials look at rewriting the rules for international airline alliances
- Percy Barnevik's challenge at Astra

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Aftershocks hit China's construction sector

By James Kynge in Beijing

The economic crisis in Asia is hitting China's construction and engineering industries, providing further evidence of the country's vulnerability to the region's problems.

Chen Yongcai, chairman of the China International Contractors Association, said cancellations and delays in south-east Asian projects and falling real estate values in Hong Kong and Macao were damaging the prospects of China's overseas contractors.

Some 74 per cent of China's overseas construction and engineering contractual work, which was worth $11.36bn last year, is in Asian countries.

The falling price of real estate projects, the shrinking demand for houses and the rise of interest rates for loans had all done "terrible damage" to Chinese companies that invested in Asia, said Mr Chen.

Guo Baolin, division chief of the China State Construction Engineering Company, the biggest engineering contractor in China, said the company had been "greatly hurt" by falling real estate values in Hong Kong, where the company owns property.

China has been relatively insulated from Asia's financial crisis and its currency, the yuan, which is not fully convertible, has maintained its value against the US dollar. But concern is growing that Asia's malaise will further slow China's growth rate, exacerbating problems of unemployment and a chronic oversupply of goods.

Some economists believe Beijing may decide to revitalise the economy and provide job openings for the several million workers expected to lose their jobs as reforms to loss-making state-owned industries gather pace. One option, economists say, would be to increase spending on infrastructure, which is set at $75bn annually for the next three years.

Recognising the sharper competitive edge which south-east Asian exporters have derived from the devaluation of their currencies, Gu Xiulian, China's chemicals industry minister, appealed to companies to slash costs and improve efficiency. "The financial turmoil in south-east Asia will inevitably affect our exports in 1998," she was quoted as saying in official reports.

The minister said that the chemical industry would shed 400,000 workers within the next three years, adding that the ministry would be able to find jobs for 70 per cent of workers made redundant in 1998.

The chemical sector would be able to grow 8 per cent this year despite the fact that about 40 per cent of the 6,000 enterprises in it were making operating losses.

Beijing's leaders have pledged on numerous occasions that China will not devalue the yuan, despite the enhanced export competitiveness of south-east Asian nations.

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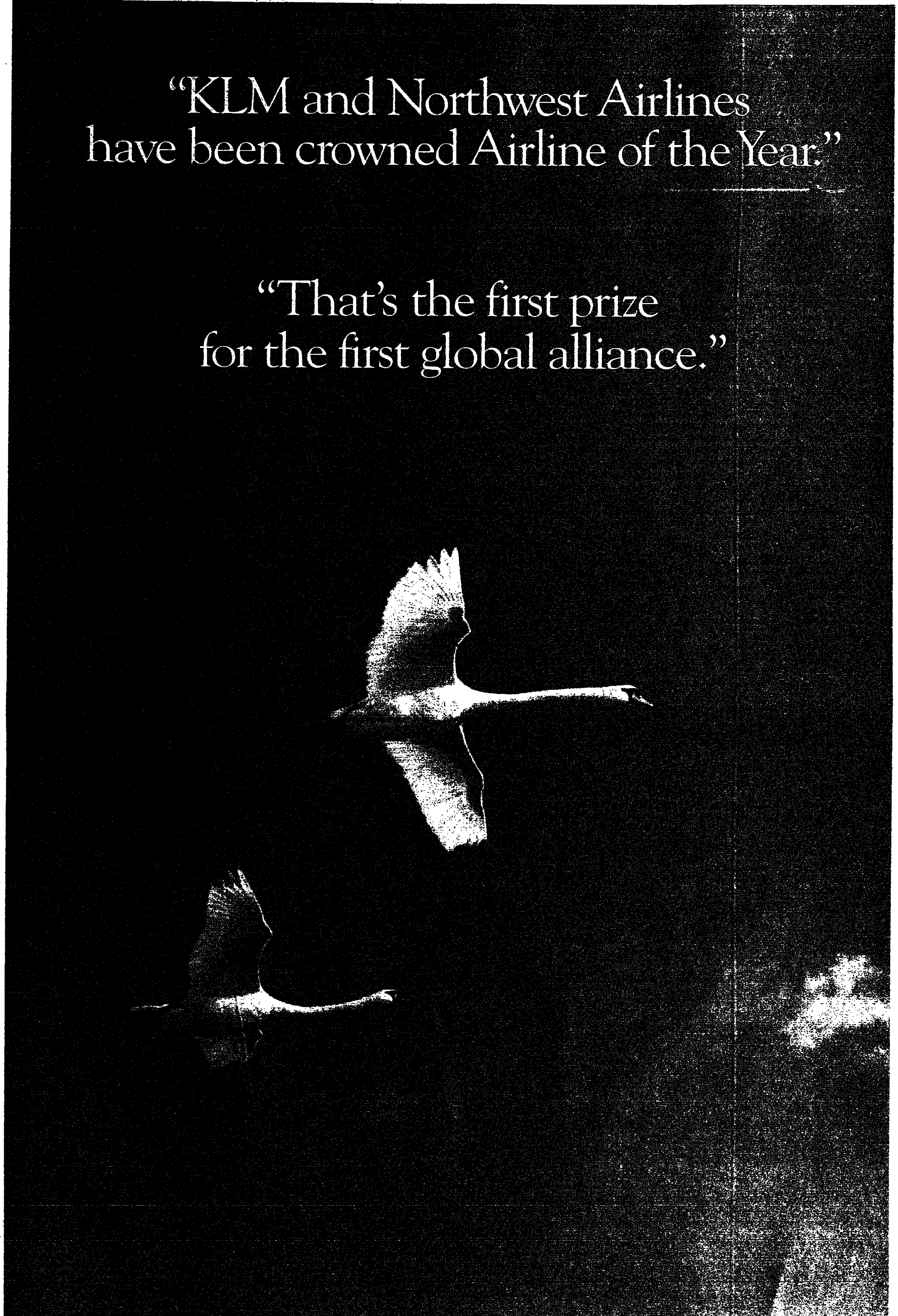


The prestigious Airline of the Year Award has been given to alliance partners KLM and Northwest Airlines. It's the ultimate recognition of the results we have achieved both individually and together. It's the ultimate proof that offering seamless connections to over 400 destinations worldwide really works. It says something about the strength of the first global alliance. An alliance that holds great promise for the future. In all areas. On all flights.

WORLDWIDE KLM

AIRLINE OF THE YEAR 1997

Internet and corruptible software blamed as industry concerns grow

New computer viruses double

By Christopher Price in London

New computer viruses which can damage companies' software and cause costly disruption to businesses have more than doubled in the past 18 months.

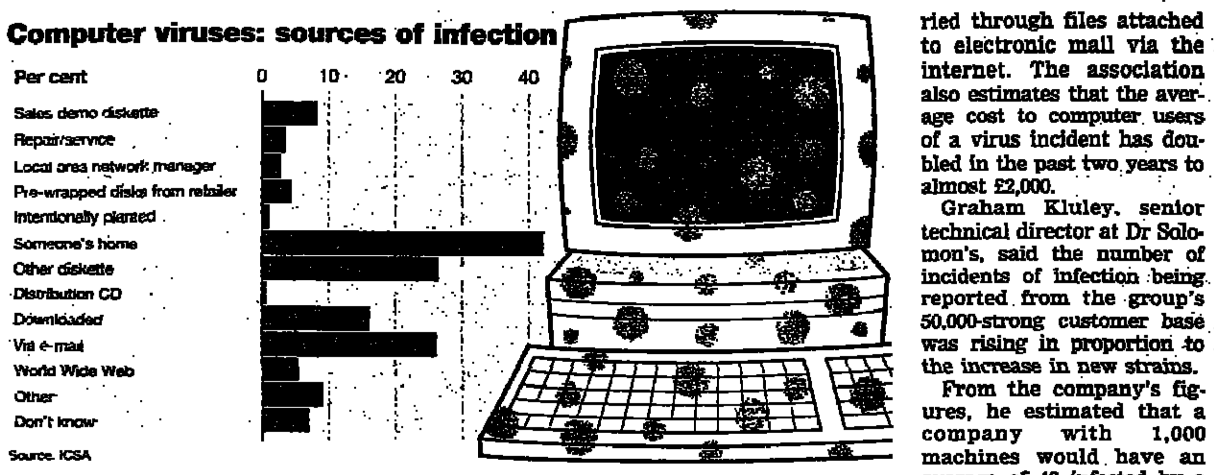
The number of new viruses discovered each month has risen from about 200 to 500 worldwide, raising serious concerns in the computer industry.

The problem is blamed on the rapid adoption of software using easily-corruptible instructions, and the growing use of the internet as a means of transmission.

Geoff Leahy, chief executive of Dr Solomon's, Europe's biggest anti-virus computer software company, said: "It's not out of control yet, but this is a serious problem affecting thousands of computer users."

Nick Fitzgerald, who edits the industry magazine Virus Bulletin, said: "It is getting to the point where the anti-virus industry will have to start re-evaluating how it tackles the problem."

Computer viruses: sources of infection



The computer crime unit at the central police headquarters in London said it was aware of the problem and was watching developments carefully but it could only act on complaints and few businesses were prepared to admit they had a virus problem.

There are some 18,000 known viruses, with a further several hundred undiscovered strains in circulation among computer users. Once identified, most viruses – almost wholly written and sent by adolescent boys – are easily prevented from damaging a computer's hardware or software.

However, the emergence of so-called "macro-viruses" has added a new dimension. A macro is a set of instructions which runs automatically when a file is opened. Macro is used in Word and Excel, two of the most popular programes by Microsoft, whose software is used in about 80 per cent of the world's PCs.

Jan Hruska, technical director of Sophos, the UK anti-virus group, said: "Macro is easy to write into, and so it is easy for virus writing. The internet has also made it easy to spread."

The International Computer Security Association, an anti-virus industry group, estimates that more than a third of all viruses are carried through files attached to electronic mail via the internet. The association also estimates that the average cost to computer users of a virus incident has doubled in the past two years to almost £2,000.

Graham Kluley, senior technical director at Dr Solomon's, said the number of incidents of infection being reported from the group's 50,000-strong customer base was rising in proportion to the increase in new strains.

From the company's figures, he estimated that a company with 1,000 machines would have an average of 46 infected by a virus every month. "One of our large clients gets 200 viruses a week," he said, most sent via e-mail.

To the chagrin of the anti-virus industry, virus writers can operate openly because the act of writing is not a crime. "We do spend a lot of time discouraging them and we have made a few converts," said Mr Kluley. "But they are basically young boys who have yet to discover girls."

Boeing may offer to lease C-17s to RAF

By Michael Skapinker, Aerospace Correspondent

Boeing of the US has stepped up its drive to persuade the Royal Air Force to use its C-17 military transport aircraft. The US group is believed to have told Britain's Ministry of Defence that it was ready to lease the aircraft to the RAF.

The ministry is examining its air transport needs as part of the government's strategic defence review. George Robertson, the defence secretary, has said the UK needed to increase its "strategic lift" to make troops more flexible and mobile.

Three aircraft are in the running. The first is the latest version of the C-130J, the Hercules, manufactured by Lockheed Martin of the US. The RAF is due this year to receive the first of 25 C-130Js as the first part of a programme to replace 55 older Hercules aircraft.

The second is the Future Large Aircraft, to be built by the European Airbus Industrie consortium, which is still at the planning stage. The third is Boeing's C-17.

A UK subsidiary of Kvaerner of Norway has made a separate proposal to lease up to seven C-17s to the RAF. The subsidiary, HeavyLift Cargo Airlines, has suggested buying six or seven of the aircraft, of which three would be leased permanently by the RAF. The RAF would be permitted to requisition the remainder at a few days' notice. The proposal, revealed in today's Air Transport Intelligence, an internet service, has been confirmed by those who have seen the proposal.

Under HeavyLift's proposal, it would begin leasing the C-17s to the RAF in two or three years' time.

UK NEWS DIGEST

Bank chief in note of caution

Eddie George, governor of the Bank of England, the UK central bank, said yesterday he was not expecting a UK recession although domestic demand needed to be "moderated". "There's no question that domestic demand needs to moderate if we're not to run into trouble," he said on GMTV's breakfast show.

Mr George has often warned that delaying a rise in interest rates might mean they would have to rise later, and by more than would otherwise have been needed. However, at last month's meeting of the Bank's monetary policy committee – which sets the rates – he voted against an immediate further rate rise, along with four of his colleagues. *Daniel Green*

■ GREEN PARTY

Euro-vote breakthrough expected

The Green party thinks it is on the brink of a breakthrough, with the party set to win seats in the European parliament under new rules for the 1999 Euro-elections. At the the party's weekend spring conference in Scarborough, northern England, activists were convinced the advent of proportional representation for European elections will finally bring them mainstream political representation. *Liam Halligan*

■ POWER STATION

Siemens wins $300m re-fit deal

Siemens Power Generation has won a £180m ($300m) contract to re-fit Scottish Hydro-Electric's Peterhead power station, north of Aberdeen. Siemens will design, manufacture, construct and integrate the plant at Hydro's Peterhead facility. The power station, currently running on sour gas, which has a high sulphur content, will be converted to operate on natural gas and is to be become operational in 2000. *Simon Holberton*

■ WHITE GOODS

Growth back to 1980s levels

Britain's white goods industry last year recorded its best year for growth since the late 1980s consumer boom, fuelled by a strong housing market and a buoyant economy. According to the Association of Manufacturers of Domestic Appliances, sales to UK consumers of white goods including vacuum cleaners rose 9.4 per cent in units and 7.3 per cent in value during 1997, compared with the previous year. *Peter Marsh*

■ REGIONAL AID

New EU rules prompt delay fears

Political wrangling within the European Union's Council of Ministers means that Britain's regions face the prospect of a serious delay in the aid they receive from the EU after the end of 1999. Disputes over proposed new rules mean that distribution of cash to many areas, may be held up for months. *Brian Groom, Sheila Jones*

British Interactive Broadcasting to adopt open technology standards

Strategy shift for digital TV service

By John Gapper, Media Editor

British Interactive Broadcasting, the company that will provide home shopping services for British Sky Broadcasting's 200-channel digital television launch this June, is adopting open technology standards to encourage other broadcasters to use it as well.

BIB, partly-owned by British Sky Broadcasting and British Telecommunications, has so far confined itself to a technology platform incompatible with internet-based operating systems. However, it will unveil a broad shift in its strategy later this week.

David Hilton, appointed as BIB's chief executive at the end of last year, is to disclose at a Financial Times conference tomorrow that BIB intends to offer services for use both with BSkyB's Open TV system – based on video technology – and other operating systems.

The move follows growing indications that BSkyB's rivals will reject technology from Open TV, which is partly-owned by the US group Sun Microsystems, and instead run interactive services on internet-based systems such as Microsofts Web TV and NetChannel.

Analysts had earlier suggested that BSkyB, which will carry BIB's home shopping services, was trying to force others to adopt its chosen technology. This was particularly controversial because Rupert Murdoch's News Corporation holds 40 per cent of BSkyB.

The decision marks a further shift towards the adoption of open standards on UK digital television after last week's decision by British Digital Broadcasting, a rival to BSkyB, to use a different signal decoding system than BSkyB's for its digital set-top boxes.

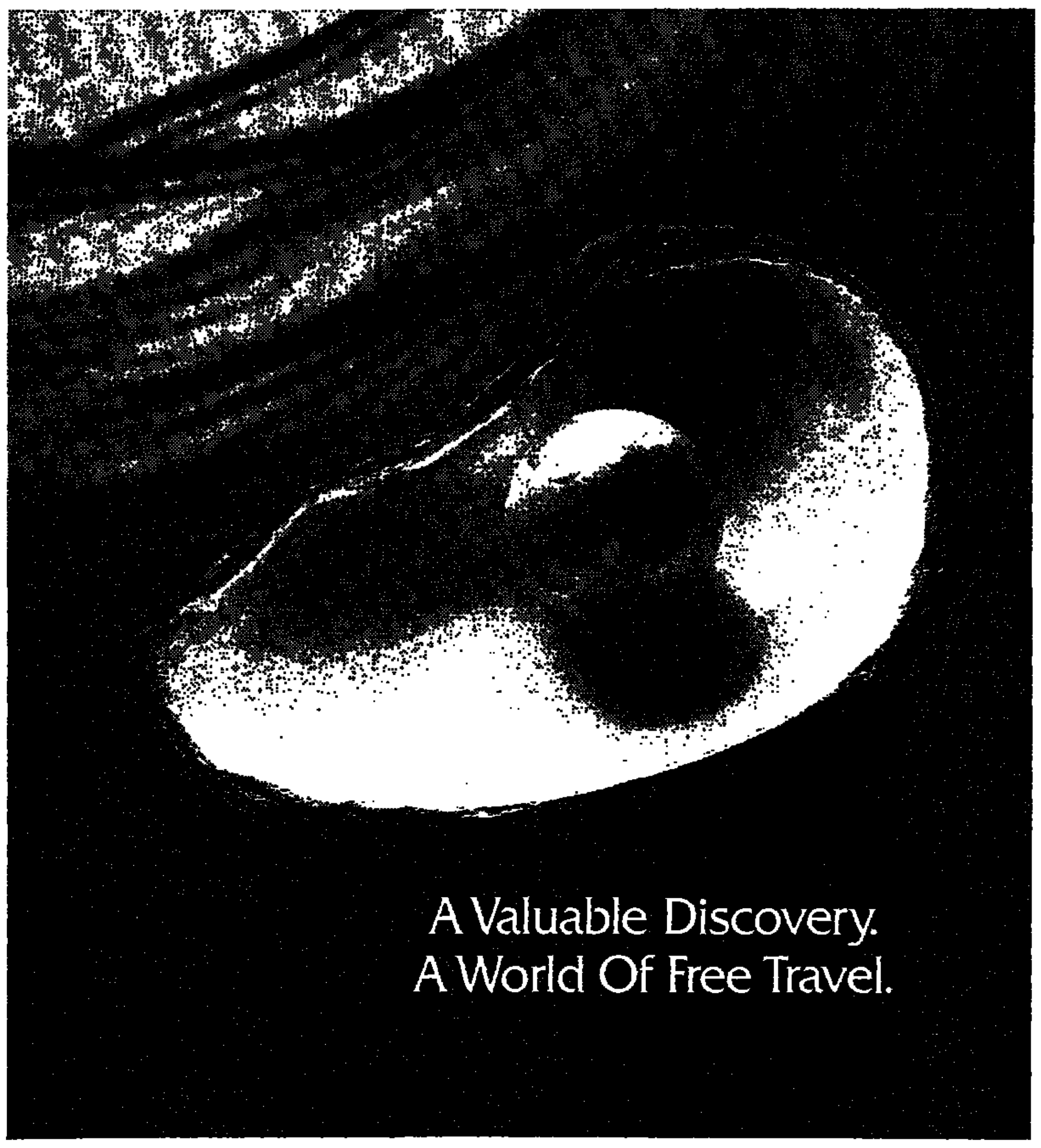
BIB has started creating a common database of home shopping services that can be transferred to other operating systems. It will also encourage retailers to develop their own software applications to put on its database for use on TV.

BSkyB and British Telecom both hold 32.5 per cent of BIB. The rest of the equity in the group, which has been negotiating to provide services for 150 companies in 34 industrial sectors, is held by Matsushita, the consumer electronics group, and HSBC Holdings, the UK bank.

BIB would have risked alienating other pay television groups by sticking rigidly to a single technology. It hopes its shift towards compatibility with other standards will attract cable television companies that are launching digital services.

The venture, which is to provide a subsidy of up to £600m to allow BSkyB digital set-top boxes to be sold for £200 each rather than their wholesale price of about £400, is being investigated by the European Commission.

While the investigation into the involvement of two dominant media and telecoms companies in an interactive venture is going on, it is delaying signing any agreements with retailers.



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CONTRACTS & TENDERS

Invitation to present bids to purchase the business unit of Fratelli Costanzo S.p.A. in extraordinary management (Law no. 95 of 3 April 1979)

The provisional administrators of Fratelli Costanzo S.p.A. in extraordinary management, as authorized by *Ministero dell'Industria* [ministry of industry] (supervisory authority) by provision dated 29 January 1998, protocol no. 716182,

whereas

a) Fratelli Costanzo S.p.A. (hereinafter, Fratelli Costanzo in extraordinary management) operates in the field of building public works with sites open throughout national territory, and technical and administrative sites in Misterbianco (Catania); as of 31 December 1997, the portfolio of works in progress amounted to approximately Lit. 1.100 trillion and its enrolments in the ANC [national builders register] in force until 7 June 2000, as certified by the certificate of 19 September 1997, are as follows: 1/2/4/6/10A/10B/14/15/17 unlimited, 3A/3000, 5A/3000, 5B/3000, 5C/6000, 5F1/3000, 5H/1500, 7/3000, 8/15000, 9A/6000, 10C/3000, 11/9000, 12A/9000, 12B/3000, 13A/9000, 13B/9000, 16F/1500, 16H/1500, 16L/3000, 19A/3000, 19C/15000;

b) Costanzo in extraordinary management is operating in the restoration plan as per art. 2, subsection 5 of law no. 95 of 3 April 1979 (the so-called "Prodi Act"), approved on 2 December 1997 by *Ministero dell'Industria*, with full operating capacity which allowed it to pursue the activities, maintain the portfolio of orders, and acquire further works awarded by public contracting bodies;

c) the provisional administrators, in the forms and in accordance with the procedures described hereunder, intend to sell the branch of business regarding the activity characteristic of construction, with the exclusion of debts before 26 March 1996, and including debts and credits for operation following that date, and the technical reservations registered, as well as with the maintenance of the levels of employment related to the activity performed;

do hereby announce

that the proceedings aimed at identifying the possible purchaser of the business unit in question shall take place in the following manner:

1. Phase 1: Demonstration of Interest

Those interested in taking part in the aforementioned procedure shall show their interest in writing by sending notification by registered mail with return receipt requested, addressed to *Fratelli Costanzo S.p.A. in a.s.* care of the Notary Public Nicola Cinotti, Corso Vittorio Emanuele II no. 229, 00186 Rome, Italy (tel. +39/6/6865642-3, fax. +39/6/6875344) by no later than **6.00 p.m.** on **30 March 1998**.

This procedure shall be open exclusively to joint-stock companies (*società per azioni*) or the equivalent thereof according to the laws within the bidder's nation, cooperatives, and consortia of cooperatives.

The demonstration of interest shall: (a) mention the identity of the potential bidder; (b) contain all information regarding the subject in question; (c) contain a brief description of objectives; (d) identify the first ten partners (except for cooperatives; all consortium members must be identified); (e) contain a copy of the last three approved financial statements and (f) declaration of willingness to supplement all these facts with further information that the procedure should deem necessary to acquire. There shall also be (g) an explicit statement of having acknowledged that this invitation provides sound information for the purposes of art. 10 of law no. 675/96, and explicit consent to the treatment of personal information based on the contents of art. 11 of the same law, even in the event of the non-occurrence of the prerequisites for exclusion of the consent as per letter b), subsection 1 of art. 12 of the aforementioned law no. 675/1996. It shall also be accompanied by (h) a commitment of confidentiality regarding the data and information of which the party shall come into possession during the later phases of the proceedings.

This demonstration of interest shall be accompanied by a statement by a leading credit institution attesting to the party's high financial and economic standing.

Consideration will not be made of demonstrations of interest made by intermediaries, and in no case shall the proceedings pay intermediation compensation.

The sending of the demonstration of interest shall constitute explicit acceptance of the contents hereof.

2. Phase 2: Non-binding bids

Interested parties that have fulfilled the aforementioned requirements shall be sent, by no later than **30 April 1998**, a "**Technical Sheet**" illustrating the business unit to be sold and the commitments to be undertaken. On the basis of this sheet, the interested parties shall formulate a **non-binding bid** that, under penalty of invalidity, shall contain:

- a preliminary business plan referring to a time frame consistent with the works portfolio, but for a minimum of two years starting from the deed of transfer, providing detailed information on investments, management, the level of employment, the outlook for expanding the activities, and any other information useful for reaching a judgement as to the reliability of the bidder; the business plan shall, as an element of primary significance, provide for maintaining intact the corporate organization forming the object of the transfer, for the amount of time indicated above;
- the price that the bidder is interested in paying, accompanied by suitable information as to the evaluation criteria used and the elements of fact referred to in formulating the bid;
- a suitable declaration by a leading credit institution attesting to the bidder's ability to go through with the bid.

The non-binding bid, duly signed by the bidder's legal representative, shall be sent in the same manner and to the same address as that provided for phase 1, by no later than **6.00 p.m.** on **5 June 1998**.

The Procedure Bodies, each in its legal responsibilities, shall evaluate the bids arriving promptly, to identify the bidders qualified to take part in phase 3. In any case, the qualifying elements shall be the following:

1. the quality and the reliability of the plan submitted, with particular reference to the continuity of the economic and productive activity of the business being sold, and at the level of employment provided for;
2. the price indicated in the non-binding bid;
3. the overall reliability of the bidder;

Those participating in phase 2 shall be informed, by no **later than thirty days after the foregoing deadline**, as to whether they have been admitted to phase 3.

3. Phase 3: Irrevocable bids

Those admitted to this final phase may have due diligence performed in the forms and deadlines indicated and agreed to upon specific request.

In any event, by no later than **6:00 p.m.** on **30 September 1998**, those qualified may, by communication to be sent in the same manner as the earlier ones, formulate an irrevocable acquisition bid on the basis of a contract outline to be sent to them together with the notification of admission to this phase, accompanied by a deposit by non-transferable banker's cheque issued by a leading Italian credit institution, or performance bond, for an amount equal to 20% of the price offered. The deposit shall be expropriated by the Procedure in the event of failure to fulfil the terms and conditions hereunder.

The bid shall be firm and irrevocable for a period of no less than 180 days after the expiration of the bid tendering deadline, and shall include an explicit statement confirming the validity of the business plan already submitted, as well as fulfilment of the commitments and obligations contained in the technical sheet already provided. The bids that are received shall be evaluated by the procedure bodies on the basis of the same parameters provided for passage from phase 2 to phase 3, and bidders who have passed this evaluation shall be called, no later than **31 October 1998**, with early communication by telegram or fax, for **9 November 1998** before the notary public designated by the procedure, to present at that moment a better offer than the highest one presented by the bidders. Provisional preference shall be won by the highest bidder, which shall, within seven days, supplement the deposit to reach the new, final value.

Participation in the procedure outlined herein shall at no time be construed as granting pre-contractual awards, and shall have no binding effect on the procedure bodies. Decisions as to the final award shall be made at the undisputed discretion of the procedure bodies, each in its legal capacity, and the corresponding formal transfer deeds, together with the regulations governing the price and the succession/substitution in guarantees made in the technical sheet or by the contract, shall be received by no later than 30 days after notification of the final award, and with the charges to be borne by the winning bidder.

All the documents provided in the various phases shall remain in the procedure's archives.

This announcement in no case and to no effect constitutes:

- an offer to the public pursuant to art. 1336 c.c.;
- a solicitation of public savings.

All the activity connected therewith and consequent thereto is subject to Italian laws and jurisdiction.

The Italian language version shall prevail over the English version, and shall be provided, upon request, by the notary public indicated above.

The extraordinary administrators of Fratelli Costanzo S.p.A., in extraordinary management.
Gaetano Alessi Stefano Nannerini
Felice Santonastaso

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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Associated British Foods 10.75p
Bespak 5.1p
Chase Manhattan Corp. Senior FRN. 2002 $154.71
Chugoku Electric Power Co. 8% Nts. 2000, $400
Hampson Inds. 0.65p
IAWS Grp. Ir1.684p
Morgan Stanley Equity Pref. 11.740625p
National Power 8% Nts. 2007 A$40
Nationwide Bldg. Soc. 4.25% Index. Ln. 2024 £3.1396
Sage Grp. 1.93p
Seiyu Europa 5.65% Gtd. Bds. 2000 Y2,825,000
Stanley Leisure 1.4p
Tokyo - Mitsubishi Intl. Tranche A Sub. FRN. 2001 $15,381.53
Do. Tranche B FRN. 1999 $15,356.25
Triplex Lloyd 2.675p

■ TOMORROW
Aon Corp. $0.26
Bear Stearns Floored FRN. 2004 $2,883.25
Boots Co. A.D.R. $0.2806
Egyptian Growth Invst. $0.22
Eskmuir Properties 1st Mort. Db. 2020 £3.9375
Do. 9¼% 1st Mort. Db. 2020 £4.625
Fountain Forestry Hldgs. 1.83p
Fujita Invst. Co. FRN. 1998 $1,571.67
Municipality Fin. 11.55% Gtd. Nts. 1999 Fm115,500
Residential Property Securities No.5 Class A1 Mort. Bkd. FRN. 2000 £960.41
Do. Class A2 Mort. Bkd. FRN. 2023 £985
Do. Class BI Mort. Bkd. FRN. 2023 £1,011.47
Do. Class B2 Mort. Bkd. FRN. 2023 £1,061.38
Royal Bank of Canada C$0.42
Sanwa Finance Aruba AEC Gtd. Sub. FRN. $837.33
Whittard of Chelsea 1.15p

■ WEDNESDAY FEBRUARY 25
Abbey National Treasury Services 6.75% Gtd. Nts. 2004 C$67.50
Allied Domecq 10¼% Bds. 1999 £551.25
BPB 7.2% Conv. Sub. Bds. 2008 £3.25
British Gov't. Stocks 8¾% Treasury 2017 £4.375
CS First Boston Fin. Gtd. Sub. FRN. 2003 $28.99
Daiwa Inds. 6.95% Bds. 1999 Y635,000
Eaton Corp. $0.44
Gartmore Scotland Invst. Tst. 2.7p
Heal's 3.2p
Helphire Grp. 0.4p
Hill Samuel UK Emerging Co. Invst. Tst. 0.26p
INVESCO Recovery Tst. 5p
London Intl Grp. 0.8p
LPA Inds. 1.15p
Merrill Lynch & Co. $0.20
M & G High Income Invst. Tst. 18.66p
Do. Income 0.98p
Do. Income & Growth 0.96p
Do. Package 0.96p
Nippon Sanso Corp. 6.4% Nts. 2000 Y640,000
Slimma 2.25p
Throgmorton Preferred Income Tst. 1p

■ THURSDAY FEBRUARY 26
Apollo Metals 3.05p
Bank of Montreal C$0.44
Barclays Bank Undtd. FR. Prim. Cap. Nts. $303.47
British Telecommunications A.D.R. $1.5534
Canadian Imperial Bank of Commerce FRN. Cap. Debs. 2085 $306.67
Crown Leisure 0.75p
Export-Import Bank of Japan 8¼% Gtd. Bds. 2001 $418.75
First National Bldg. Soc. FRN. 2000 IR£1,579.62
Galen Hldgs. 0.367p
HongKong & Shanghai Banking Corp. Prim. Cap. Undtd. FRN. $156.53
Merchants Tst. 3.5p
Norsk Hydro 9¾% Nts. 2003 $97.50
State Bank of New South Wales 12¼% Nts. 2001 A$122.50
Titon Hldgs. 3.5p
Tomkinsons 8p

■ FRIDAY FEBRUARY 27
Allied Irish Banks Und Var Rate Nts $97.75
Alvis 2.25p
BAT Inds 12¼% Un Ln 2003/08 £2.919863
BTM Fin (Curacao) 7⅜% Gtd Bd 2002 $737500.0
Do 8¼% Gtd Bd 2007 $825000.0
Bank of Nova Scotia Fltg Rate Sb Cap Db 2085 $303.33
Beales Hunter 2.4p
Bristol & West FRN 1999 £1963.86
CLM Insurance 1.26p
Chase Manhattan Sb FRN 2000 $150.09
City of London Inv Tst 1.66p
Do 20% Non-Cm Pf 7p
Do 6% 1st Cm Pf £2.10
Do 6% Non-Cm 2nd Pf 2.1p
City of Oxford Inv Tst 1.3p
Columbus 0.16p
Commonwealth Bank of Australia Dtd FRN Feb 1999 $297.08
Do Und FRN Feb 1989 $303.34
Daiei 6.4% Bd 2002 Y640000.0
Danae Inv Tst 3.375p
Deltron Elec 2p
Denmark FRN 1998 £190.10
Dumyat Inv Tst Cv Mnthly Div 0.49p
Eurotherm 5.8p
Exmoor Dual Inv Tst 1.8p
Farlake 2p
Fin for People (No 1) Class A1 Mtg Bckd FRN 2036 £129.95
Do Class A2 £196.46
Do Class B £201.95
Do Class C £210.42
Finsbury Inc & Grwth Inv Tst 2.5p
Fleming Geared Grwth Inv Tst 0.95p
Do Units 8.55p
Geared Inc Inv Tst 1.5p
Do Inc 1.5p
Glasgow Inc Tst 1p
Great Universal Stores 6p
Greenalls 10.01p
Halifax Cllrd FRN 2003 £388.91
Homeloans (No 2) Class A2 Mtg Bckd FRN 2028 £195.17
Do Mezz £210.67
Int Bank for Reconstruction & Dev 11⅛% Nts 2001 £111.25
Irish Permanent Treasury Gtd FRN 1999 £19.45
Jersey Elec A 24p
Legal & General Recovery Inv Tst 1.75p
Lloyds Bank Prim Cap Und FRN (Ser 2) $153.25
Do Prim Cap Und FRN (Ser 3) $300.50
Do Ser B Var Rate Sb Nts 1998 £197.40
Lloyds TSB Var Rate Sb Nts 2003 £205.68
Lonrho Fin 6% Gtd Cv Bd 2004 £30.0
Do 8% Gtd Cv Bd 2006 £40.0
Lucas Inds 6½% Cm 1st Pf 2.275p
Maple Mortgage Sec No 1 Class A1 Mtg Bckd FRN 2030 £90.60
Do Class A2 £1977.07
Do Class B £2069.32
Midland Bank Sb FRN 2001 $98.93
Morgan Grenfell Und Prim Cap FRN $309.65
Mulberry 0.75p
Narborough Plantations 1p
Nat West Bank Prim Cap FRN Ser C $151.67
Do Und Var Rate Nts £212.67
New Zealand Inv Tst 4.75p
OLIM Cv Tst 4.5p
Do Units 13.5p
Orbis 0.35p
Royal Bank of Canada Fltg Rate Db 2005 $44.24
Temple Bar Inv Tst 6% Cv Un Ln 2002 £3.0
Thorn 3.7p
Tokyo-Mitsubishi Int Sb FRN 2000 $15482.64
Topps Tiles 1.2p
UNO 1.85p
Vega 1.91p
Wells Fargo Sb Fltg Rate Cap Nts 1998 $151.67
Do Sb FRN 2000 $44.72

■ SATURDAY FEBRUARY 28
Bankers Inv Tst 1.5p
Derby Tst 9.0144p
Ecclesiastical Insurance 13% Db 2018 £6.50
Electricite de France 12½% Gtd Ln 2008 £312.50
Gartmore British Inc & Grwth Tst 2.25p
Do Units 2.25p
Gartmore Smaller Co's Tst 5% Cm Pf £1.75
Gibbon 7% Cv Cm Pf 3.5p
Goodhead 0.2p
Honda 5¼% Cv Bd 1998 $131.25
London & St Lawrence Inv 5% Cm Pf 1.75p
Parkland 4.2% Cm Pf 2.1p
Prowting 14½% Cm Pf 7.25p
SDX Business Systems 1.6p

■ SUNDAY MARCH 1
American General $0.375
Coventry Bldg Scty 12⅛% Perm Int Brg £60.625
Fidelio Tst No 3 Step-Down Coupon Amtg Nts 2015 DM161.36
London 2½% Cons £0.625
Do 3% Cons £0.75
Low & Bonar 5½% 3rd Cm Pf 1.925p
Do 8% 1st Cm Pf 2.1p
Do 6% 2nd Cm Pf 2.1p
Metropolitan Water 3% B 1934/2003 £1.50
Mexico 16½% Ln 2008 £8.25
Oldham 11¼% Rd 2010 £5.625
Sainsbury (J) 8% Irrd Un Ln £4.0
Sanctuary Hsg Assoc 8⅜% 1st Mtg Db 2031 £4.1875
Slough Estates 4.125p
Do Cm Cv Pf 4.125p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Deltron Elec, Suffolk House, Fordham Road, Newmarket, 11.00
INVESCO Recovery Tst, 11, Devonshire Square, E.C., 12.00
Mountcashel, Grant Thornton House, Melton Street, Euston Square, N.W., 2.00
NFC, Institute of Directors, 116, Pall Mall, S.W., 12.00
Treatt, Bedford Lodge Hotel, Bury Road, Newmarket, 11.30
BOARD MEETINGS:
Finals:
Brewin Dolphin
Conister Tst
Fidelity European Values
HSBC
Hibernian
Mayflower
Ultra Elec
Interims:
Adwest Automotive
Community Hospitals
Gyrus
Regent Inns

■ TOMORROW
COMPANY MEETINGS:
Apollo Metals, Apollo House, Redfern Road, Tyseley, Birmingham, 10.30
Crabtree, Kingsway, Team Valley, Gateshead, 2.30
Hill Samuel UK Emerging Co's Inv Tst, 204, Great Portland Street, W., 11.30
Murray Emerging Economies Tst, 7, West Nile Street, Glasgow, 12.30
Titon, International House, Peartree Road, Stanway, Colchester, 10.00
BOARD MEETINGS:
Finals:
Admiral
Arriva
Capita
Dixon Motors
Easynet
Nat West Bank
Radius
Sema
Interims:
Alumasc
Pacific Horizon Inv Tst
Pifco
Sinclair (Wm)

■ WEDNESDAY FEBRUARY 25
COMPANY MEETINGS:
Abtrust Emerging Economies Inv Tst, 1, Bow Churchyard, Cheapside, E.C., 12.30
Acatos & Hutcheson, Tallow Chandlers Hall, 4, Dowgate Hill, E.C., 11.30
Greenwich Res, 5, North Colonnade, Canary Wharf, E., 12.00
New Zealand Inv Tst, Chamber of Shipping, 12, Carthusian St, E.C., 12.00
PWS, 52, Minories, E.C., 12.00
BOARD MEETINGS:
Finals:
BWD Sec
Commercial Union
Domnick Hunter
Guardian Royal Exchange
Herald Inv Tst
Parity
Prudential
Shires Smaller Co's
Vardon
Wickes
Interims:
Logica
Verity

■ THURSDAY FEBRUARY 26
COMPANY MEETING:
City Site Estates, Royal Scottish Automobile Club, 11, Blythswood Square, Glasgow, 10.30
BOARD MEETINGS:
Finals:
Abbey National
Beta Global Emerging Mkts
Braime (TF & JH)
Calderburn
Centrica
Clarke (T)
Crestacare
Estates & General
Green Property
Lasmo
Liberty Int
Lionheart
London Bridge Software
Morgan Sindall
Norish
RTZ
Smith & Nephew
Wembley
Interims:
Brunel
McBride
Mucklow (A & J)
Quayle Munro

■ FRIDAY FEBRUARY 27
BOARD MEETINGS:
Finals:
Antonov
Baillie Gifford Shin Nippon
Interim:
Go-Ahead

Company meetings are annual general meetings unless otherwise stated.
Reports and accounts are not available until six weeks after the board meeting to approve the preliminary results. This list is not comprehensive.

Financial Times Surveys

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For more information, please contact:
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FINANCIAL TIMES
No FT, no comment.

CONFERENCES & EXHIBITIONS

Conferences & Exhibitions

MARCH 2 & 3
FT Power in Asia
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Email: lucindar@pearson-pro.com
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MARCH 3, 10, 17
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Bookings: Michael Romanek
Tel: 0171 731 6996
Fulham Palace, LONDON

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Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
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MARCH 5
Central and Eastern Europe Investment Forum
PlanEcon and Standard & Poor's *DRI* assess the East European and FSR investment climate including banking, energy and automotive industry analysis. Seminar features Mr. Sergey Alexashenko, first Deputy Chairman of the Central Bank of Russia and Mr. Svetoslav Gavriisky, Governor of the Bulgarian National Bank.
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in London 0181 545 6212
Internet: http://www.planecon.com
The Brewery, LONDON

MARCH 5 & 6
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Fax: +41 (1) 422 22 82
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APRIL 6-8
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APRIL 28
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THIS WEEK

Witch-hunt reaps a grim harvest

DATELINE

Tokyo: Publicity about the recent corruption scandals may force Japanese society to change – but at a cost, writes Gillian Tett

In the old days, Japan's elite disembowelled themselves with Samurai swords. Last week, Shokei Arai, a Japanese politician, chose a more modern method of suicide.

As his wife popped out of the plush Tokyo hotel where they were staying, Arai, 50, crept into the bathroom. There he hanged himself with his bathrobe belt from the air conditioning duct.

The reason? Arai had recently been questioned by prosecutors about his part in a corruption scandal that has dogged Japan in recent months. The press had declared he was about to be arrested that afternoon.

Such a suicide is shocking in any country. Viewed in Japan this winter, though, it stirs up a confusing welter of emotions.

Arai's death is the fourth to have been linked to an anti-corruption drive that has mesmerised the country for nine months. Last summer, a senior banker hanged himself. Last month, two bureaucrats also committed suicide – one by throttling himself with his own tie.

And as the bizarre and tragic tales tumble out, the problem for any onlooker is not just working out what is going on in Japan but just what to feel about it.

Should the anti-corruption drive be welcomed as a badly needed sign of reform in Japan? Are these deaths just a reflection of Japan's tradition of ritual suicide? Or is there something sinister afoot?

As one western diplomat said recently: "I just don't know quite what to feel. Perhaps [the scandals] are healthy. But they leave a nasty taste in my mouth."

Last spring, the issue seemed clearer. When the prosecutors launched a raid on Nomura Securities then, amid allegations it had been paying corporate racketeers – or *sokaiya* – many observers cheered.

After all, tales about *sokaiya* have been endemic for decades. The *sokaiya* are unsavoury individuals. Clamping down seemed a sign of badly needed reform. As Yoshihiro Fujii, a journalist with the Nikkei newspaper says: "Japan needs to change to become more globalised. All this is a sign of change."

This "change" has gathered pace. When Yamaichi Securities collapsed in November, it emerged it had been illegally hiding losses. Last month, there were new revelations of banks lavishly entertaining the bureaucrats regulating them. And this month Arai was accused of receiving illegal profits from Nikko Securities. He denied this.

To those familiar with the Japanese system, none of these "revelations" are a shock. The real surprise has been the reaction of the press and politicians. After decades of silence on such issues, Japan's media have covered the recent tale with moralistic glee – and without any apparent criticism from the government.

Perhaps this is good. But it is difficult not to feel distaste. Little in Japan is ever as it seems. And the anti-corruption drive is not a simple tale of crime and truth.

Take the prosecutors' office, the institution that has been driving the investigations in the past year. Little is known about it, and its motives are unclear. It claims never to talk to the press, but has been briefing favoured Japanese journalists recently with leaks – with devastating results.

Daily allegations about the "crimes" have appeared in favoured papers, well before any arrests. So have the names of the targets. In Japan, where the legal system is flimsy, there is little protection from lawyers. Public judgment, in other words, does not wait for the courts.

The prosecutors might argue such tactics are necessary. Changing Japan, after all, is a massive endeavour. And their behaviour is certainly not unique. The Clinton scandal in Washington, for example, has hardly been a savoury affair.

But there is still a disturbing sense of hypocrisy afoot. As the scandals have broken, prosecutors have seized a few individuals. Then as the blinking targets have emerged into the media limelight, an orgy of criticism has been unleashed.

Few believe these are isolated "criminals". *Sokaiya*, or "wining and dining", were previously accepted as corporate policy. So were the politicians' dealings with brokers. "What Arai is accused of is what many other politicians were doing. He just got targeted," says George Curuby, a Tokyo consultant.

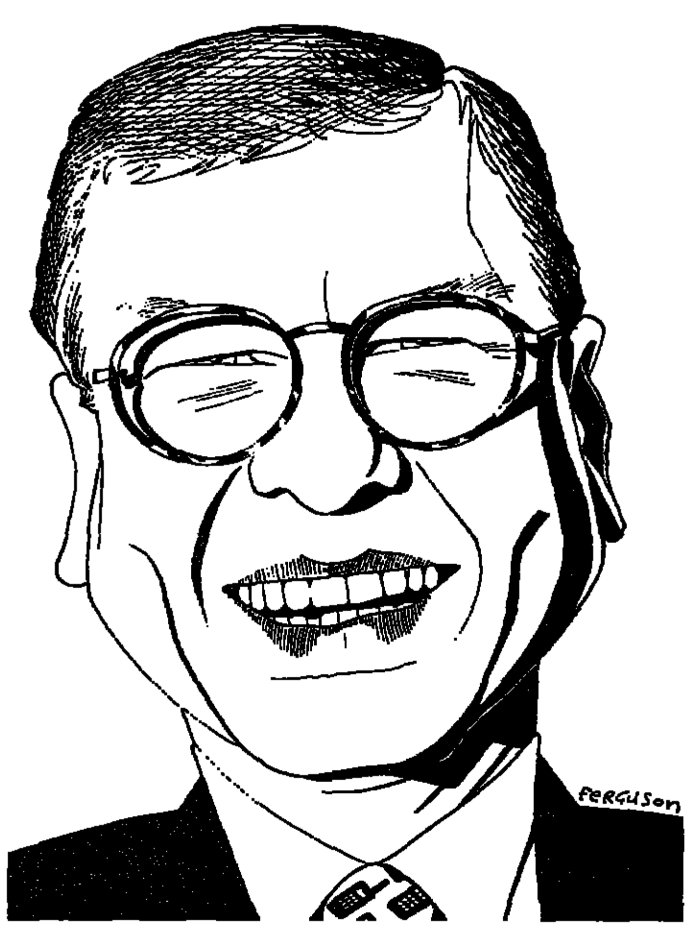
Again, the prosecutors might retort they can only act on evidence. And their targets have broken Japanese law. But to outside eyes, it smacks of scapegoating. And Japan is a group-oriented culture where rejection is one of the cruellest fates. As Yukio Saito, a suicide counsellor, says: "Isolation is a key factor in suicide. Arai was very isolated before his death."

Was this what drove Arai to hang himself? Nobody knows.

But as the corruption scandal continues, the mixed emotions will not die away. Future historians may conclude that these events have brought real reform in Japan. But four suicides is a grim toll. It is hard to escape the conclusion that what is afoot in Japan now is a witch-hunt.

The Monday Profile: Sven-Christer Nilsson, Ericsson

Upwardly mobile



Sven-Christer Nilsson guessed he might be up for promotion when he was summoned to the office of Lars Ramqvist, chief executive of Ericsson, last month. Mr Nilsson, a general manager in the Swedish group's mobile telephone systems business, knew he was among a group of executives being assessed for top management positions. But when Dr Ramqvist asked if he wanted to take over running the company, Mr Nilsson was stunned. "I asked myself 'is this real?'," he says, his face creasing into a grin. "I knew I was being looked at, but I never had a thought I'd be asked to succeed Dr Ramqvist."

The affable Mr Nilsson is described by co-workers as "low profile", and he harboured reservations about the job's high visibility. He accepted only after a week of taking soundings among family and colleagues.

"Obviously there is a very different perspective between being a business unit manager and the very public position held by the CEO. But I will learn to handle it," he says.

Mr Nilsson relishes the job ahead. The industry, he believes, is at a turning point as the multimedia revolution pushes telecommunications companies into computer software while computer companies eye opportunities in telecommunications.

"We are at a point where the telecommunications industry has to break new ground, and the same goes for the computer industry. We at Ericsson have very much to contribute to this new world of infocom."

Rumours that Dr Ramqvist, who turns 60 this year, wished to step aside and let a younger hand tackle such issues had been in the air since last year.

But his replacement by 53-year-old Mr Nilsson – little known inside Ericsson, let alone externally – surprised employees as well as financial analysts. At the ensuing press conference, one senior Ericsson executive admitted he had no idea what Mr Nilsson looked like.

Making his face known will be his most immediate task. Already his diary is bulging with dates of meetings with suppliers, customers, investors and staff. Whether he joins the elk hunts favoured by many top Swedish directors is another matter. Mr Nilsson, who lists family life among his interests, prefers sailing and hiking.

An Ericsson employee since 1982, he brings several advantages to his chief executive's post. An engineer by training, he has worked in product design and marketing, so understands the link between factory and customer. "One should remember that it is our people out in the subsidiaries who are actually doing the job. We as managers hopefully can make it possible for them to operate," he says. During the 1970s he worked as a designer of computer-related telecoms equipment – experience seen by Ericsson's board as valuable amid the convergence of telecommunications and data.

Before being named chief executive he held a prominent role in Ericsson's North American cellular business, heading operations in mobile telephone standards. His familiarity with the US market, Ericsson's largest, should serve him well, especially if the company – as many expect – seeks to bolster its software expertise through bolt-on US acquisitions.

Mr Nilsson's cellular telecommunications background is also an important advantage. The business accounts for 68 per cent of group sales and its prosperity is crucial to Ericsson's growth.

A decade ago, Ericsson's main business was supplying fixed-line networks to largely state-run public telecommunications operators. Outside Sweden, the company was little known. This changed during Dr Ramqvist's eight-year tenure. Spotting the potential of cellular telephony, he pumped billions of kronor into turning Ericsson into a leader in the sector. As the world mobile phones market exploded, so the Ericsson name emerged as a global consumer brand. James Bond even appeared with an Ericsson gadget in the latest 007 movie.

Mr Nilsson understands that running a consumer-led business requires a more sophisticated marketing strategy. He acknowledges too that running a company with 100,000 workers worldwide will demand much of the organisational training gleaned from his years as an artillery reservist in the Swedish army.

So what management style will he bring to the job? "My goal has always been to build teams where people complement each other. I like people to be reasonably in agreement over what we do, although I can be authoritarian too," he says.

He aims to expand Ericsson's 20-strong top management, promote decentralised decision-making and cultivate a more entrepreneurial culture.

At his side will be Dr Ramqvist, who will become chairman. The two met in the mid-1980s when Dr Ramqvist was Mr Nilsson's boss. Although Dr Ramqvist will influence strategy, he wants to relinquish operational control. Mr Nilsson is likely to be given a free hand.

In fact, he could do worse than take the odd leaf from his predecessor's book. In his eight years Dr Ramqvist delivered annual earnings growth of more than 30 per cent. Should Mr Nilsson emulate that, Ericsson's shareholders will be more than happy.

Greg McIvor

FT GUIDE TO:

FRAUD TRIAL JURIES

Why is this an issue now?
The UK government is considering getting rid of juries altogether, or at least reducing their role in complex fraud trials. This would be a radical departure from the cherished tradition that a citizen is entitled to be tried by his peers.

What prompted this?
Remember trials such as Blue Arrow and Maxwell which ended with newspaper headlines such as "Serious Fraud Office fiasco"?

Each trial lasted several months and cost many millions of pounds in public money, particularly for legal aid bills. Yet both trials, for different reasons, were widely regarded as examples of how the present system of prosecuting alleged fraud is less than satisfactory. Howls of protest about the inadequacy of the system followed in legal circles, the press and other media.

But I thought the Serious Fraud Office was to blame for all this because it failed to do its job properly when bringing prosecutions. Why is the government blaming juries instead?
The SFO dropped a few clangers, particularly in its early years, but even defence lawyers say much of the criticism of it has been undeserved. The bulk of the problems in prosecuting fraud effectively are deeply rooted in the criminal justice system and more intractable than many people suppose. Slimming down cases is not as straightforward as some retired judges have been saying in the newspapers.

The capacity of a jury to understand complex fraud remains a fundamental issue. Some question jurors' ability to understand complex financial transactions or the way modern companies and business people work in practice.

Others say the amount of evidence in fraud cases is so enormous that making trials manageable for a jury has proved impossible in practice. The Blue Arrow trial imploded because too much evidence was presented. The Maxwell trials ended with prosecutors able to present only one fifth of the evidence it wanted to show the jury.

But how do we know for sure that juries are unable to deal with these cases?
We don't. Any evidence either way is purely circumstantial and will remain so until proper jury research is carried out. However, the government has said it will consult on these proposals without conducting jury research first. Research would take a long time and always remain speculative, it said.

I can understand this public concern when vast amounts of time and money are consumed on individual trials. However, in the Blue Arrow and Maxwell cases, all those on trial were eventually acquitted. Is that relevant?
That's a very good question. It does seem to be the case that the furore over the competence of juries in fraud trials usually only occurs when the executives in the dock are acquitted. When they are convicted and then thrown into jail by the judge, the juries seem to be widely applauded for their wisdom.

However, as defence lawyers point out, not everyone who ends up in the dock automatically deserves to be found guilty. Jurors can be doing their job perfectly properly when acquitting defendants.

A basic principle of British law is the presumption in favour of innocence. In other words, a few guilty people walking free is considered a price worth paying to avoid innocent people being convicted and spending years in jail. Any reform will have to address this issue.

So there is a lot of politics about all this then?
Certainly. Many people object to wealthy executives claiming huge sums in legal aid to hire top lawyers to represent them and winning their acquittals. Labour MPs have protested strongly about this in the past.

Also, the City's reputation is not helped if it is widely perceived that the criminal justice system allows crooks to get away with major financial crime.

So what is the government proposing?
There are four options:
- Special juries where jurors are required have minimum educational qualifications or professional expertise
- Abolition of juries and instead having trials in front of a judge alone.
- Tribunals consisting of both a judge and lay assessors.
- Reforming the present system to give judges a greater role in deciding crucial issues. Juries would be left answering simpler questions about whether defendants' conduct was honest or not.

Would any of these work any better?
They would all make fraud trials shorter and cheaper. But whether they were better able to deliver justice is uncertain. All the options are open to criticism, notably for creating an elitist system.

What is the most likely outcome?
The government insists it has no preferred option and may indeed decide to make no changes at all. However, initial betting among lawyers seems to favour reform that keeps a strong "lay" element.

Unique powers allowing the SFO to compel suspected fraudsters to give evidence, removing their "right to silence", were introduced in 1988 without public protest. Some encroachment on the role of juries in fraud cases would seem politically possible now. However, getting rid of juries from fraud trials altogether might prove a harder act to sell.

John Mason

Financial Times Surveys

UK Mid-Market Companies

Monday March 16

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FINANCIAL TIMES
No FT, no comment.

Peter Norman • Economics Notebook

Challenge to the old order

A change of leader in Germany could turn policies upside down

Germany has never been a fertile field for Keynesianism. While Britain actively pursued demand management policies following the second world war, governments in Bonn and the Bundesbank in Frankfurt paid more attention to monetary and price stability.

But now Oskar Lafontaine, leader of Germany's opposition Social Democratic party, is bringing Keynes into the German economic policy debate. The man who aspires to lead the opposition challenge to Helmut Kohl, the chancellor, in the September 27 general election wants to turn present government policies on their head.

Faced with nearly 5m unemployed, Mr Lafontaine's prescription is to boost demand by lifting purchasing power rather than pursuing supply-side policies of wage restraint, deregulation and rolling back the activities of the state in society.

The SPD leader has a guru: Heiner Flassbeck, head of economic policy studies at the DIW economic research institute in Berlin. According to Mr Flassbeck, an important source of Germany's ills has been the failure of wages in recent years to grow in line with productivity.

His arguments are summarised in the accompanying table. Rather than encouraging investment and new employment, wage restraint has discouraged companies from taking on further staff because demand at home has been depressed. Admittedly, German exports have thrived. But this, Mr Flassbeck says, has been a "beggar my neighbour" policy that has depressed activity abroad, and notably among Germany's European trading partners.

Both Mr Lafontaine and Mr Flassbeck contrast Germany's experience with that of the US. Mr Lafontaine told the Bundestag recently that expansionary fiscal policies in the 1980s and low interest rates in the 1990s supported US domestic demand and encouraged growth and employment.

The moral Mr Lafontaine drew was that an SPD government should boost purchasing power. Last week he promised he would increase children's allowances, cut taxes for those on average incomes and reverse the present government's plans to curb the growth of pensions provided under the state scheme.

He also promised to reverse Germany's few significant supply-side reforms of recent years, such as the 1996 laws that moderately reduced sick pay and relaxed job security in small businesses.

Mr Lafontaine is sympathetic to faster growth in wages. In his Bundestag speech, he contrasted last year's 6 per cent growth in wages paid in the US with the 0.5 per cent growth in Germany and accused those urging wage restraint of "economic ignorance".

It would be an understatement to say the policies of Mr Lafontaine and Mr Flassbeck are viewed with scepticism by the bulk of Germany's economic establishment. The SPD leader has been likened to a time traveller who is seeking to solve the problems of the 1990s with the failed prescriptions of the 1960s or 1970s.

Western Germany: productivity, wages and employment

Annual av. change %	Hourly productivity	Real hourly wages	Numbers employed
1950-60	[illegible]	[illegible]	[illegible]
1960-70	+5.3	+5.7	+1.0
1970-75	+4.3	[illegible]	[illegible]
1975-80	+3.1	+2.9	+1.3
1980-85	[illegible]	[illegible]	[illegible]
1985-90	+2.9	+2.0	+1.6
1990	[illegible]	[illegible]	[illegible]
1991	+3.7	+3.1	+2.7
1992	[illegible]	[illegible]	[illegible]
1993	+0.7	+1.2	-1.7
1994	[illegible]	[illegible]	[illegible]
1995	+3.5	+3.1	-0.8
1996	[illegible]	[illegible]	[illegible]
1997	+3.7	+1.5	-1.1

Source: DIW Berlin

The barriers to success for Mr Lafontaine's policies appear formidable. It is far from clear whether increased demand would solve German unemployment. The Bonn finance ministry, citing the International Monetary Fund, claims 80 per cent of Germany's unemployment is structural and would not respond to expansionary policies.

Other estimates suggest faster growth could absorb a third of the unemployed, but that would still leave two-thirds without jobs.

Germany's labour costs continue to be high compared with countries abroad in spite of wage restraint and last year's devaluation of the D-Mark. With many companies fearing increased competition from east Asia, where local currencies have devalued dramatically, it is hard to envisage managers approving job-creating investments on the grounds that rising wages at home would boost demand for their products.

The comparison with conditions in the US is less than convincing. The US leaves businesses room for manoeuvre. Figures from the Organisation for Economic Co-operation and Development show US general government outlays are about 32 per cent of gross domestic product after fluctuating between 31.7 and 34.4 per cent of GDP since the early 1980s.

In Germany, by contrast, government spending has fluctuated between 45 per cent and 50 per cent of GDP in the 1980s and 1990s and is only now being brought down slowly towards a target of 46 per cent by 2000.

The high public sector involvement in Germany's economy is a symptom of the half-hearted support given by Mr Kohl's governments to market-oriented, supply-side reforms. The fact that one in eight Germans is jobless is not so much an argument against supply-side policies, as Mr Lafontaine maintains, as a sign that they have been applied too weakly.

Mr Lafontaine's economic policies would probably be good for those lucky enough to be in work. But the net benefits of any boost to demand would most likely be felt by active participants in Germany's informal "shadow economy" which, after rapid growth in recent years, is thought to be the equivalent of 15 per cent of GDP.

But the SPD leader's ideas cannot be dismissed lightly. Although much can change in seven months, opinion polls continue to suggest a general election victory for a coalition of the SPD and environmental Greens. Mr Lafontaine has nosed ahead of Mr Kohl in the polls.

All of which raises the intriguing possibility that Europe's planned economic and monetary union could start operating on January 1 next year with radically different policies in Bonn than assumed when the Maastricht treaty was signed in 1992.

Mr Flassbeck argues that Emu would gravitate more to the US model of economic policy making than the Bundesbank model. Financial markets could take a more drastic view of a euro area in which the biggest economy – Germany – is run by a left-wing, expansionist government.

Drinkers toast New World

Wine producers hope to create brands with mass appeal, says John Willman

Wine is a business bloated with famous brand names: Lafite, d'Yquem, Beaujolais, Chablis, Veuve Clicquot, Chianti, Rioja – even grape varieties such as Chardonnay and Cabernet Sauvignon have their followings. But it is a business largely devoid of internationally recognised consumer brands.

It is not for want of trying. The roll-call of wine brands over the years includes Hirondelle, Mateus Rosé, Bull's Blood, Lutomer Riesling, Jacob's Creek, Blue Nun, Ernesto & Julio Gallo, Lenz Moser and Piat d'Or.

Most have succeeded in winning no more than a few per cent of the market in one or two countries. Even Gallo, the world's biggest wine brand, has less than 1 per cent of global sales.

Yet leading wine producers remain convinced they can create retail brands with mass appeal to emulate the likes of Johnnie Walker Scotch whisky, Buitoni pasta or L'Oréal cosmetics.

"There have been enormous improvements in wine quality in recent years," says Christopher Carson, European chief for BRL Hardy, the Australian winemaker that has just launched a range of Sicilian wines throughout northern Europe under the D'istinto brand. "The companies that will be best placed to benefit from this are those which can build brands based on great distribution and strong marketing skills."

The wine trade should be ripe for this. Most consumers are baffled by the complexities of choosing between countries, regions, types, grapes, *negociants* and even proprietors or chateaux. That is where consumer brands should succeed, says Jonathan Knowles of Wolff Olins, the corporate identity consultancy: "They help the customer choose between the enormous number of bottles on the shelf, offering a guarantee of value."

Retailers provide some of that reassurance with their own-label products, which have taken more than half the market in countries such as the UK and Belgium. But stores are also keen to have branded wines priced just above their own-label products, according to Tim Foster, marketing director for Jacob's Creek in the UK.

"Recognisable brands reassure customers, providing a reference point on quality and price that encourages them to make a purchase," he says. "Our research shows 83 per cent of consumers enter the store without knowing which wine they intend to buy."

The appeal for producers is also clear, says Mr Knowles: "It would be too expensive to advertise a single wine, but branding across several varieties allows the marketing costs to be spread."

In spite of these theoretical arguments, the wine trade has proved largely impervious to consumer branding. In the UK, the top 10 brands have less than 9 per cent of the market, and the picture is little different in the rest of Europe.

Jean-Louis Dumeu, head of the Paris office of Landor, the international branding consultancy, says this is inherent in the product's nature. Each variety is unique, and the same wine can taste quite different from one year to the next.

"The promise of a brand is that it will be the same quality every time," he says. "A brand is a contract with the consumer which says: 'I will not be a bad surprise when you buy me again.'"

That means any branded wine must be blended to guarantee consistency, and the result is never as satisfying. The exception that proves the rule is champagne, a blended product that commands a premium price, where brands dominate the market.

"Champagne is a very special product for special occasions," says Mr Dumeu. "It is more like perfume or a liqueur than a wine."

There are some successful wine brands in France, such as Georges Duboeuf, the *negoçiant* that markets a range of premium burgundies. But branded wine is largely associated with the litre bottles of *vin ordinaire* which gave too many French drinkers a headache.

This Gallic approach is rejected by New World winemakers from countries such as Australia, New Zealand and the US. They believe the improvements they make in wine production mean branding can offer both consistency and quality.

"We encourage good disciplines in the winery, particularly in hygiene and work methods," says Hardy's Mr Carson.

D'istinto will be produced by Casa Vinicola Calatrasi, a traditional growers' co-operative near Palermo in Sicily. The Australian company will select the grapes and has already encouraged its partners to prune the vines in June and July to raise the fruit's quality.

"We also decide the best time to start picking rather than leaving it to tradition or whim," says Mr Carson. "And we ensure the grapes once picked are taken straight back to the winery so fermentation starts at the time of our choosing."

This approach has captured almost 10 per cent of the UK market for the Australian wine producers. And applying it to Sicilian wines will boost the amount of red wine Hardy's can bring to the European market – overplanting of Chardonnay grapes in Australia has left the country with a shortage of red grapes.

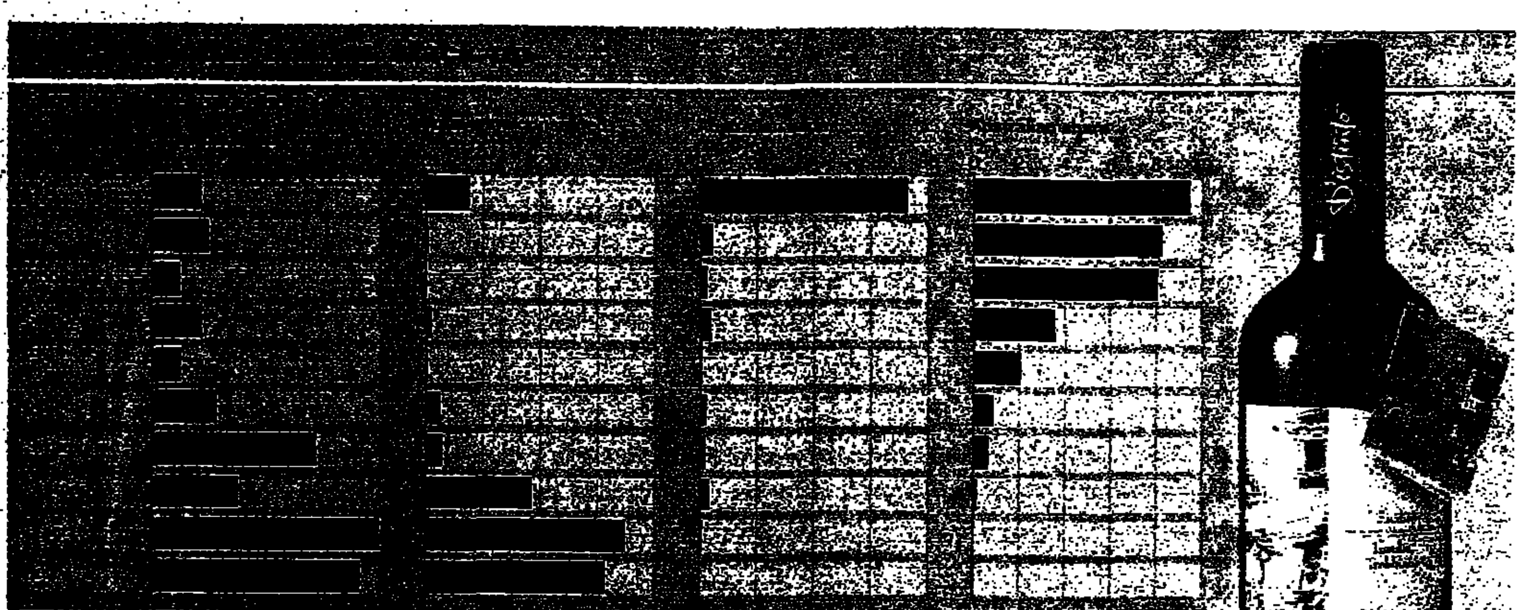
But Mr Carson believes D'istinto offers an opportunity to capture a bigger share of the European market. "We had an advantage in Britain where Australia is a known quantity and there is a shared heritage," he says. "The aim now is to raise our market share in other European countries to the level of the UK.

"A wine from Italy is an ideal way to get the attention of Europe's retailers, since they already sell lots of Italian wines. This is particularly so in Germany where Italian wines already have a quarter of the market."

In spite of Mr Carson's optimism, many brand specialists remain sceptical of the scope for consumer branding in wines. Mr Knowles says that even if consumers start off drinking branded wine, they quickly become more educated about the product and feel less need for the reassurance of a brand.

"Wine-lovers look for something they haven't heard of," he says.

"In the best wine circles, there is almost an anti-branding mentality – too much marketing is seen as a sign that something is wrong with the product. When the people who are not in the know get to know the brand name, people who are in the know no longer want the product."



Champagne – top brands worldwide, 1996

Brand	Company	Nine litre cases ('000)	Market share (%)
Moët & Chandon	LVMH	2,025	9.5
Veuve Clicquot	LVMH	880	4.1
Mumm	Seagram	610	2.9
Mercier	LVMH	540	2.5
Lanson	MCD	510	2.4

Winston Fletcher

In search of integration

Campaigns must combine all marketing options

One of the hottest issues in adland is how to co-ordinate and integrate all the marketing options available. Loyalty schemes, sponsorship, public relations, database marketing, event marketing, sales promotion, websites and interactive media – not to mention good old-fashioned advertising – offer clients a bewildering variety of options. These demand decision. What is the right way to carve up a total marketing appropriation between, say, advertising, sponsorship and public relations – and how can they all be made to work together?

Several new agencies promise to answer these questions with a gamut of "integrated marketing" skills in-house. In the past few years new shops have combined traditional media advertising with database marketing. But the latest agencies have combined advertising with public relations, consultancy, corporate design and, most frequently, a promise of "the right marketing solution, whatever that may be".

No longer do new agencies just offer the best creativity in the world, because everyone believes integrated marketing is the name of today's game.

Clients have always required their communications to be coherent and complementary. But there appears to have been a radical shift of emphasis for several reasons.

First, during the recession clients sought marketing inputs that might be cheaper than traditional advertising. In those gloomy days of plummeting advertising budgets, clients experimented with different marketing approaches. That impetus continues.

Second, when the consolidation and profitability of advertising agencies peaked in the late 1980s, they began to hunt for other sources of income. Because they are restricted from taking on competitive accounts, once they reach a certain size agencies find it almost impossible to outperform the advertising market. But they can develop other marketing skills, and then sell total packages to clients. The trend towards integration has emanated as much from the needs of agencies as from clients.

Third, some of the options available, such as loyalty cards and the internet, are genuinely new and use innovative technology. Clients have been feeling their way forward gingerly so it has been important for them to be integrated with well-established methods.

But fourth, and most important, like every other aspect of business, marketing techniques grow more specialist every year. It is difficult for anybody to be competent in all of them.

But pulling together all the options is only the first stage. What criteria should be used in apportioning the total marketing budget between them? Can their relative cost efficiencies be compared? Whose is the responsibility? Should it be somebody in the client company or the agency? Or will another kind of specialist have to be invented?

Finding the right answers will not be easy. Marshall McLuhan's famous aphorism, "the medium is the message", is coming home to roost.

The author is chairman of Bozell UK Group

Hollywood out of the picture

David Short looks at why Czech viewers are reaching for the off button when US-made programmes are shown

When the communist regimes of central and eastern Europe fell, an unlikely beneficiary was Hollywood. Suddenly the studios had a fresh market of up to 170m people as new private television stations sprang up. Hungry to fill blank schedules, buyers from the new channels went shopping.

Almost everything they bought had been made by the six biggest Hollywood studios, whether it was Bond movies, soap operas, gameshow formats, stylish new series such as the *X-Files* and *ER* or old 1980 stalwarts such as *Dynasty* and *Dallas*. Viewers across the former communist bloc lapped up this new menu.

The new private channels with outstanding ratings cashed in on booming TV advertising spend while audience shares for the state broadcasters languished. It all seemed so easy.

Perhaps too easy, because now in the Czech Republic, where the first of these new private terrestrial channels – Nova TV – was launched in 1994, Hollywood's star is waning. Czech viewers are reaching for the off button in droves when US TV shows come on.

Films are different. Hollywood movies such as *Dances with Wolves* and *Pretty Woman* can pull in audiences of up to 70 per cent. Vladimir Zelezny, Nova TV's general-director says: "It is a fundamental change. Local product is winning strongly over imported programmes. The initial excitement over American programmes is over. Now people want to see Czech faces and Czech names."

The decline is steep. Mr Zelezny adds: "By 1997, the performance of our acquired programming has fallen by 45 per cent compared to 1994."

Even so, a reborn taste for all things Czech on television might not completely explain American's poor showing. Mr Zelezny partly blames "narrowcasting". Increasingly, US TV producers are making programmes aimed at delivering a specific audience to advertisers – not least, affluent young professional Americans.

But too much narrowcasting can lose audiences in countries such as the Czech Republic where the newly affluent young are thin on the ground. Generally, however, the Czech market is still a valuable one for western TV advertisers. At about $150m, Czech TV advertising expenditure is highest in the region after Hungary and Poland.

Mr Zelezny complains that Hollywood is "not taking into account a huge emerging market [in central and eastern Europe]. They are not producing products which can serve our needs."

The chance that European programmes will fill that gap is small. "We don't use much western European material. It's not good and it's expensive. And those British detective stories with nice scenery like *Inspector Morse* are so slow – too slow for the computer-game generation."

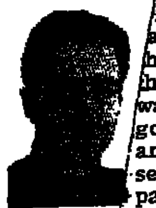
Ironically, Nova TV is mostly backed by US money. It was the first channel launched by the Nasdaq-quoted Central European Media Enterprises four years ago. Since then, the company and its local partners have started stations in Poland, Hungary, Slovakia, Slovenia, Ukraine and Romania.

So far there is no evidence of the Czech phenomenon repeating itself in the wider region. But chances are that it will.

The Czechs have had almost twice as long to tire of US imports – most private channels in other post-communist countries are just over two years old. And the history of television shows that, given the choice, viewers overwhelmingly prefer domestic drama, and Mr Zelezny promises more home-produced series and soaps. Whether other broadcasters in the region will be able to afford to follow his lead is another matter.

Tim Jackson · On the Web

An end to your searching



One of the fascinating things about the web is the way in which good ideas and useful services get passed from one user to another faster than any advertising could work. A case in point is Anywho, a web-based telephone directory that receives between 100,000 and 300,000 queries a day, even though it has not spent a penny on advertising.

Anywho, which launched last September, looks superficially similar to services such as Four11, Bigfoot and half-a-dozen others. A casual visitor to its web site, *www.anywho.com*, might come away with the impression that the site is run by a modestly well-funded high-tech startup based in Silicon Valley.

But Anywho is not a start-up and it is not even a company. It is a technical trial run by a team of five people at AT&T in Murray Hill, New Jersey, the site of the company's research lab where the transistor was discovered.

The point of the trial is that AT&T scientists have developed new ways of dealing with directory databases. Most use indexes to speed up access to the data, which can be hundreds of gigabytes in size. The AT&T team has found a way of providing swift lookups with far smaller indexes – and Anywho provides useful fodder for the scientists.

The Anywho web site keeps track of the database queries issued by users. If one takes longer than expected, then it is added to a list that the software engineers can look at, allowing them to figure out how to improve their design.

So why is it interesting to internet users? Partly because it is extremely fast. But it also offers a number of features, combined in a unique way.

One is that you can search for someone whose name you only partly remember. Another is reverse lookup: by typing in a phone number, you can find out whose it is and where they live.

Reverse directories are frowned on in Europe, and disliked by many privacy advocates. The Anywho site gives two examples of respectable people who use it: a psychologist who gets late-night messages on his pager, and wants to know who the caller is before he calls back; and someone checking unrecognised calls appearing on a phone bill.

Anywho also emphasises putting the user in control. It allows you to have yourself removed from its listings, or to add extra information such as an e-mail address, an office number in your residential listings or a toll-free business number.

At the moment the service is not free. Jerry Vogel, the technical manager, refuses to be drawn on how it might become a commercial business proposition.

But there are three possibilities. The first is placing advertising on the directory pages. A second option is the Yellow Pages model. Businesses get a standard listing for free, but pay more for an advertisement or more detailed information.

The third option, however, is the most interesting. AT&T's standard directory assistance has an add-on service which, after giving you the number you want, will then dial it for an extra fee.

The web equivalent would be to offer to set up an internet telephony call whenever you click on the listing. This would play perfectly to AT&T's strengths – and would build on its research capability and its strong position in long-distance.

tim.jackson@pobox.com

FTid - The Internet Directory

All of these can be accessed via hyperlink directly from the Financial Times at http://www.FT.com

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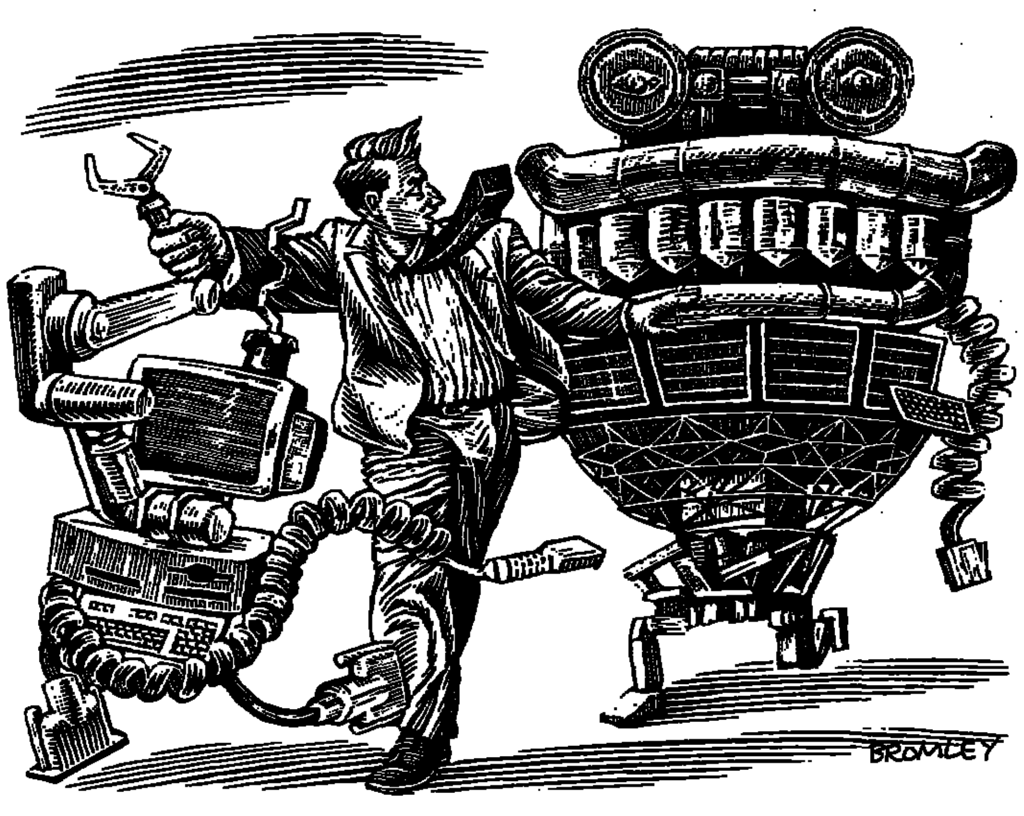
MANAGEMENT

Tony Jackson on a new book that suggests technology is replacing company strategy

The machines are taking over



There seems no end to the way technology is invading management thinking. The internet has already deeply affected whole areas such as marketing and procurement. But technology now shows signs of taking over that most central of functions, corporate strategy.

Traditionally, strategy has come from the top of the company, with technology being one of the things used to implement it. But in more and more cases, technology *is* the strategy. What is more, it generally comes from below.

Most managers are uneasily aware of this. All kinds of business, from banking to travel agencies, are under threat from the internet. And if you find a new way of doing things – a killer app (application), in the jargon – it will probably come not from the top, but from your customers and those in the company closest to them.

But according to a US survey last year, senior executives have not quite grasped the implications. Most of those questioned confessed to anxiety and the feeling that they did not fully understand the issues. But they were agreed that "in their organisation technology was only a tool to implement strategy".

The forthcoming book, *Unleashing the Killer App*, from which this information is drawn does much to explain their difficulty. It also gives a remarkably clear picture of why technology is becoming so pervasive in the first place.

The authors begin with three forces, each powerful in itself and lethal when combined. The first is familiar: Moore's Law, which says the power of chips doubles every 18 months for the same cost.

The second is less well known: Metcalfe's Law, named after the founder of the US network company 3Com. This says that the utility of a network rises with the square of the numbers of people using it.

Suppose there are only two phones in the world, and the owners talk once a day. Result, one call. Add another phone and that becomes three calls. Make it 10 phones and – supposing everyone is still talking to everyone else – you have 45 calls. The use of the network, in other words, increases exponentially.

Third is an observation from 1937 by the Nobel prize-winning British economist Ronald Coase. The reason firms form in the first place, Mr Coase said, is to minimise their transaction costs. When they run out of things they can do more cheaply inside the firm than out, they stop growing.

Some surprising things follow from this. The combination of Moore's and Metcalfe's laws is driving down a number of transaction costs in the open market very fast indeed. It should follow from Mr Coase that as these costs approach zero, so does the size of the firm.

This seems rather at odds with the current wave of mega-mergers. As the authors point out, much of this – in financial services especially – is a defensive response to falling transaction costs. Whether that is the whole story seems doubtful.

And, of course, not all transaction costs are falling. The monstrous growth of computing consultants such as Andersen Consulting and EDS is a reminder that whereas computing may drive down transaction costs elsewhere, it has vast transaction costs of its own: choosing the system, installing it, and ensuring it does not bring the enterprise to its knees by going wrong.

That apart, the authors make one essential point: that customers are generally quicker to grasp the technology than established suppliers are. This is mainly because the suppliers have more to lose, in the form of sunk costs. Their assets, as the book remarks, are their liabilities.

If you are a conventional bookseller, the advent of a virtual internet rival such as Amazon poses a distinct dilemma. Of course, you can retaliate in kind; but then what happens to all your expensive stores?

Or suppose you are an established chemical distributor, complete with offices, trucks and warehouses. It must be thought-provoking to study the website of the virtual dealer ChemConnect, which tells you that 500 litres of isobutylnitrite are wanted in Germany, or that 400 tonnes of aluminium monostearate are on offer from South Africa at $3 a kilo.

What is needed in such cases, of course, is lateral thinking. The book is rather good at suggesting ways to go about this.

First, forget the conventional rules of strategy. For instance, Michael Porter of Harvard emphasises the importance of the value chain. Scrap it, say the authors, since it is hampering change. If you do not, someone else will destroy it anyway.

In the same heroic vein, you should not hesitate to cannibalise your product. And you should give as much of it away free as you can, since Metcalfe's Law says you will thereby increase its value.

That, after all, was exactly what Netscape did in releasing the browser that made internet commerce feasible in the first place; and in spite of its recent mishaps, Netscape still has a market value of some $2bn (£1.25bn) four years after being founded.

Perhaps most important, you should let your customers take the lead. Outsource as much of your business to them as possible. Holiday Inn has a website that allows customers to find the right hotel, check the availability of rooms and make a booking. There are no banks of phones or reservation agents. Customers do it on equipment – PCs, modems, phone lines – that they have paid for themselves.

Next, let the customer develop the product. What can be digitised can be customised, so customise everything. Or rather, let the customers do it for you. In the process, they will feed you priceless market data on who they are and what they like.

Finally, how can you be sure that you have avoided the trap of thinking, like those managers in the survey, that technology is merely a way of doing things? Simple, the authors say. You will know you have arrived when you can no longer tell where the business stops and the technology starts.

Unleashing the Killer App, by Larry Downes and Chunka Mui. Harvard Business Press. $24.95. To be published in May.

Nothing ventured, nothing gained

Companies are ill-prepared but enthusiastic about joint ventures, says **Diane Summers**

Are joint ventures more trouble than they are worth? That they are trouble is confirmed by a UK survey published today; nevertheless it seems companies overwhelmingly believe joint ventures will continue to figure strongly in their future strategies.

The survey, for KPMG Transaction Services, the deal advisers, was carried out among senior executives at 155 manufacturing companies with a combined turnover of more than £5bn. The study is believed to be one of the UK's largest into companies' experiences of joint ventures and strategic alliances.

Neil Lerner, UK head of KPMG Transaction Services, said that although joint ventures were now a well-established mechanism for expanding overseas, there was still a tendency for companies to enter them with their eyes shut and fingers crossed.

"Our study suggests that British managers do not invest nearly enough time in understanding their partners' business and culture, and often start joint ventures without agreeing on objectives and strategy," he says.

Joint ventures usually take more than a year to set up, with 85 per cent of companies saying that the process takes longer than might be expected.

KPMG says that although joint ventures are often cited as a more flexible and simpler alternative to outright takeovers, more than half of companies said they found acquisitions better, cheaper and more efficient.

Over a third of companies said their joint ventures tended to perform worse than expected, tie-ups in the food and drink and automotive sectors fared particularly disappointingly.

More than a quarter of those questioned said they had not conducted detailed research until negotiations were well advanced – often leaving it too late to escape from the deal if problems were uncovered. Nearly half said there was a tendency to conduct too little due diligence in respect of a new joint venture partner.

In spite of problems, UK companies are as keen as ever on joint ventures, says KPMG. Just 15 per cent said they were less eager to do joint ventures after their earlier experiences; 69 per cent said joint ventures would feature strongly in their future strategy; and 70 per cent said they expected to enter a new joint venture in the next year.

Joint Ventures: a triumph of hope over reality? Free from Barbara Zanditon, KPMG, 8 Salisbury Square, London EC4Y 8BB. Tel: 0171 311 1000.

MY SECRET WEAPON

Prue Leith on rolling the wicket

Be a good lobbyist and win the ear of the chairman

Prue Leith is currently deputy chairman of the Royal Society of Arts, Manufactures and Commerce, following four years as its chairman. She founded and subsequently sold Leith's Good Food, a catering business, Leith's restaurant and Leith's School of Food and Wine. She has been on the boards of Argyll (now Safeway) Group and British Railways Board, British Transport Hotels and is now a non-executive director of Halifax Building Society and Whitbread. She was Businesswoman of the Year in 1990. She is a director of a number of companies and charities.

I developed a taste for committees when I was in my 20s and Peter Parker put me on the Travellers Fare board [the station caterers]. I can remember my first meeting. I suggested that we ought to be thinking about hamburgers and pizzas. An old buffer said it would lower the tone of British Rail.

But we ended up opening places like Casey Jones and Upper Crust in stations. It was a very exciting time. That's when I realised I was quite good at committee stuff. I like nobbling people in the corridors to get them on my side.

Peter Parker used to call it "rolling the wicket". You have to do a lot of lobbying to get a good chance of a smooth passage. Don't just come in with a bright idea and bounce it off people. There is a natural reaction to support the status quo.

One of the things I learned early on at Safeway was that you are powerless unless you have the chairman's ear. When I first joined, Alastair Grant, the chairman, kept saying sales would be better if people could look at the food, not placards on plastic grapes and ivy in the cheese counter. I became obsessed with it but I couldn't persuade anybody. It wasn't getting anywhere.

Finally, we were at an opening of a new store with half of the board. I grabbed Alastair Grant and said: "Come and look at this cheese counter. Can't we do something?" The poor cheese manager must have wanted to kill me. But Alastair Grant decided it was worth it, and sales went up.

I am actually quite a good chairman. One of the reasons is that I have seen so many boards that have fantastic chairmen. At British Rail, Peter Parker always went round and worked out. He would always say: "What does Tom, Dick or Harry think?" He was very good but the meetings always overran like mad.

At Halifax, Jon Foulds' trick is to have a timetable with the agenda so everyone knows how long each item is going to last. I now do that. It does help control people.

When I was chairman of the RSA, it had 40 board members who are all very powerful people. They all chaired their own businesses and were at the top of their own tree. The difficulty with a board like that is they are very powerful and have great confidence in their judgment. If somebody says emphatically "This is the way we should do that", they are used to carrying the room with them. If you have a strong board, you have to do what they want you to do. A lot of people like a weak board. I would much rather have a board of high-calibre people.

I am rather impulsive and tend to be a bit of a loose cannon. One of the great advantages I had when I started was that I was a complete amateur. Then all the posh dining was in hotels. They had this idea that customers had to wear ties. They did not think what it was like to be a customer.

I would be a fool to think I would be on these boards if I wasn't a woman. I don't want to imply that I am not pulling my weight. But for every woman with my background there are 200 men. The companies want a woman to satisfy the person at the AGM who says, "Half your customers are women, 50 per cent of the staff are women, so why is the board all men?" That is an embarrassing question to answer.

People say you are there as a role model. There is a bit of that but not as much as people like to think. What really encourages other women is when a woman executive gets on the board.

Interview by Vanessa Houlder

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Success at office politics comes from years of practice

John W. Hunt
Advises

Dear Professor Hunt,
I manage an information technology department in a merchant bank. The politics of this company are causing me so much stress that I am thinking of changing jobs. I find I do not have the stomach for the sort of political games some of my colleagues play. I keep asking myself: can't everyone else see what is happening here? Or am I just naive?

Prof Hunt replies:
No, you are not the only one who can see the politics. But you may be just beginning to realise the stark fact that all organisations – whether businesses, government departments or voluntary organisations – are political systems.

Politics is a necessary part of the process. All organisations have limited resources. Everyone wants more of those limited resources and there are two ways to achieve that. First, to convince those with more power over the allocation of resources to give you a greater share and, second, to become more powerful and grab more resources.

Either way you will become involved in the politics of dividing up the cake. Some people are distressed because there must be winners and losers in the allocation game: your gain could be my loss. And, invariably, the winners seem to be the political players because they put more time and energy into selling their case.

What irritates the less competent political players is when resources are divided in a way they consider to be blatantly unfair. For reasons that are not always clear to an outsider, certain functions have bigger budgets, better facilities, smarter cars and larger salaries. While people may argue that these differences reflect labour market forces, it is also true that they reflect decisions based on political clout.

If you are tempted to believe that politics could be eliminated through a rigorous rule-bound procedure, that is quite independent of the people involved, then let me tell you this is naive. If the second half of the 20th century has taught us anything at all about managing organisations, then it must be that massive control systems, designed in the name of rational decision-making, can result in crippling structures which become ends in themselves.

For people motivated by power, the real allure of the top jobs is to make things happen, to change events, to create the new, to break with the past. Not surprisingly, most of those who make it to the top are experts at playing politics. For them, it is intoxicating stuff and just to experience power they will devote seven days a week and 24 hours a day if necessary to the political processes involved.

For people motivated by power, the real allure of the top jobs is to make things happen and to change events

London Business School has a data bank of what motivates managers across the world and there are interesting differences between cultures when it comes to accepting that power is essential to get things done. But, regardless of culture, the most effective chief executives enjoy the exercise of power and have served very similar apprenticeships.

Most of these men and women come from families where they were the eldest; where they learnt their managerial skills from a dominant parent (of either gender); where they practised their use of power first on their siblings and second on their peers at school, university or on the playing fields. For them, the exercise of power in order to make things happen is not a transient interest. They have been watching and imitating role models, reading about heroes and thinking about political tactics for a long time before they secure positions of real power.

These chief executives far outclass that relatively new breed of CEOs born in the 1950s and 1960s who clambered up hierarchies through professional expertise rather than any real interest in the exercise of power. These chief executives, whose interest in managing people is often minimal, seek the space to do what they consider to be their real job of making deals or evolving strategies or conducting research or designing new structures and systems.

It is ironic that at a time when we are desperate for leadership an increasing number of these introverted, autonomous specialists, who have a minimal interest in power, are being appointed to chief executive positions. They need management gurus such as Tom Peters to tell them to "walk about" and "walk the talk"; managers motivated by power, meanwhile, who get their greatest buzz out of managing and processing relationships to make things happen, do not need gurus to tell them what they already know.

Let me return to your letter. Comments like yours are most often first expressed by people in their 30s as they begin to realise that their career is not a dress rehearsal; that peers with better political skills may pass them by. It is a period of recognising that each of us is on his or her own; that managing others is about respect, not friendship. It is a time when the importance of politics and patronage in medium to large organisations becomes undeniable.

If the politics distress you then you should ask whether you are right for that sort of organisation or whether you would be better in a smaller company or selling your skills as a sole trader. You might be better suited to working as a consultant if you want autonomy, to mix with a small number of other professionals to solve other people's problems, and to see a direct relationship between what you do and what you earn. You will enjoy a different form of power based on your expertise but you will also lose some of what you have. You will no longer run things; you will live, vicariously, on the successes of others who are the real movers and shakers.

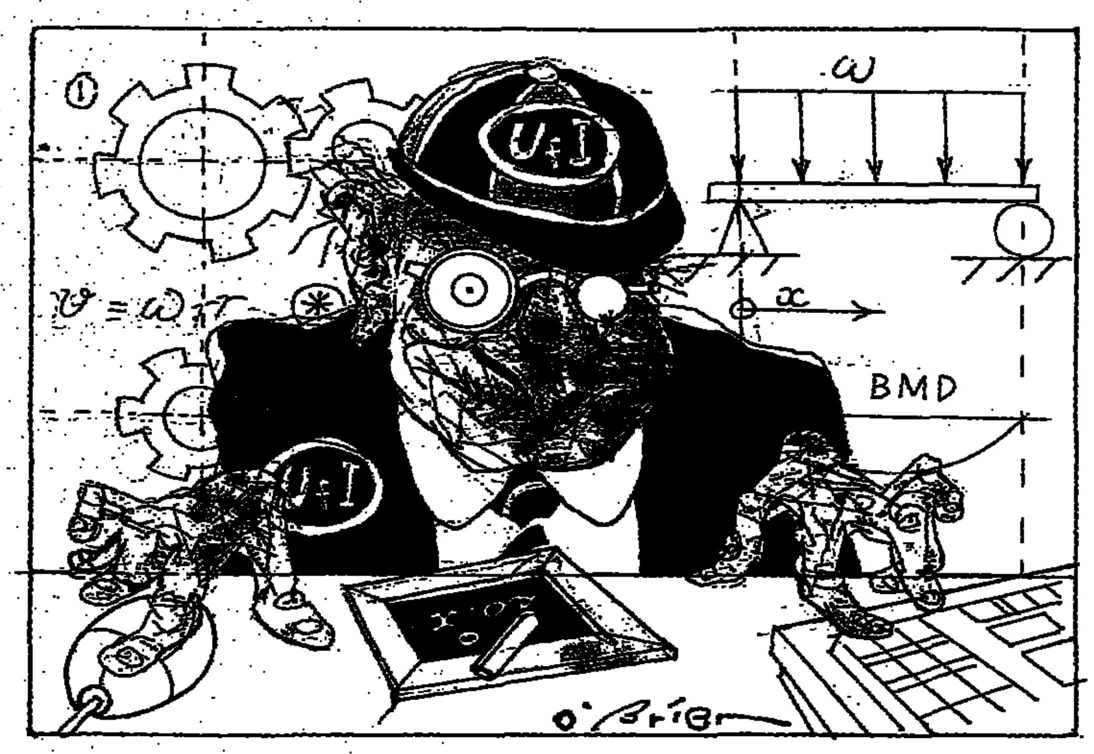
The alternative is to accept the world for the way it is, accept that you are in a political system and learn by observing others. Concentrate on your best political skills and develop those. Strong managers use their political skills with great subtlety to achieve specific ends. When political games become ends in themselves they become destructive. Discourage non-directed political games within your team. As a manager you are an exemplar. If you want to encourage openness and trust in others then remember you are their role model.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

BUSINESS EDUCATION

Natural lifetime of learning

The Labour party's University for Industry is about to become reality, says Robert Taylor



The UK government's much-vaunted University for Industry is about to turn from concept into reality. With the exception of the odd mention at conferences there have been few clues about what the Labour party may have had in mind since it floated the idea two years ago when in opposition.

Last month David Blunkett, the education and employment secretary, removed some of the mystery when he promised that the university or "UfI" would "make a major contribution to equipping our nation with the skills required to sustain growth with stable inflation and do so in a new century when new skills and the ability to take advantage of information and communication technology will be at the forefront of our prosperity and the ability to compete".

A much clearer picture of the substance behind this ambition should emerge next month when the government intends to publish the university's first prospectus. By the end of the year a chief executive will be appointed. An advisory group in the Department of Education and Employment, headed by David Brown, chairman of Motorola in the UK, has been drawing up a blueprint which will be outlined in an interim report.

Kim Howells, minister responsible for lifelong learning, says next month's Budget can be expected to "kick-start" the university with public funding.

A total of £5m in start-up capital has already been allocated for the 1998-99 financial year. The official launch of the university is planned for September. By the same time next year its architects hope that it will have 10,000 enrolments.

Gordon Brown, the chancellor of the exchequer, who first outlined the proposal, has compared the institution with the Open University created by Jennie Lee in the Wilson government during the 1960s. Its promoters believe it will make a "significant contribution to the skills and learning revolution, developed as a flagship public-private partnership to improve employability and competitiveness".

But the university looks likely to prove much more modest, at least initially. "We are not going to have a campus physically situated in the middle of Britain," says Mr Howells. "This is a virtual university. It exists in cyberspace." He sees the university as a way of "disseminating best practice" in industry.

"It involves joining together existing networks, trying to reduce duplication, overlap and lack of co-ordination," he says. Mr Howells also wants the university to give small- and medium-sized businesses the opportunity to learn from the experiences of larger companies. The university will be primarily concerned with meeting the chronic shortages of information and communications technology skills in industry. But initially its emphasis will be on promoting public understanding of the idea of lifelong learning. This will involve a campaign to win backing from a range of agencies and organisations through agreements with retail chains, banks, the print media and utility companies.

Efforts will also be made to mobilise voluntary bodies, community groups, civil and religious associations, schools, trade unions and leisure organisations to find people who might want to participate.

The aim is ambitious: to bring about a shift in popular attitudes so that people will not regard learning grudgingly as something of a chore but see it as a natural part of life.

A national information, advice and information centre is to be established free at the point of contact for individuals and companies. The idea is that people will "enroll for life", developing individual learning records so that they can track and record their progress on some kind of lifetime CV which they can show to prospective employers.

A proposed helpline, information network and website will provide the university with a shop front. Policymakers see the UfI performing a role as a broker, connecting individuals as well as companies with learning programmes that meet their needs.

Beyond the start-up figures the overall financial cost of UfI remains unclear. But there are signs that Labour wants lifelong learning on the cheap. Most individuals will be encouraged to spend their own money and search for cut-price bargains.

Just how effective the proposals will prove in eradicating the cyclical skill difficulties that have plagued the UK labour market most of this century remains to be seen.

The enduring concepts of bureaucracy

Potted Theories

Bureaucracy has become such a pejorative term it is difficult to appreciate that the system as it was envisaged by Max Weber, the German sociologist and political economist, prevailed as the bedrock of corporate and public sector organisation for the better part of the century.

In spite of business re-engineering, including the introduction of flatter management structures, the system remains apparent in many organisations with reporting structures and a chain of command extended from the executive through various tiers of administration within which individuals may win promotion.

Today, however, such systems are under continual challenge from those with quite different concepts of what constitutes an ideal corporate model. Bureaucratic, rules-driven, hierarchical structures, once respected because of their very solidity, have proved cumbersome in adapting to changes in business conditions.

Teleworking, flexibility, variable working patterns, single-status workplaces and looser job definitions are freeing companies from the strictures imposed by Weber's administrative model but they have far from replaced it.

Weber studied qualities of leadership, noting the role of charisma in inspirational leaders but was less attracted to such a style because of its instability, causing problems for succession. He also thought that it bore too close a resemblance to hereditary leadership which, he argued, was more prone to patronage with its accompanying risk of delivering inept management.

In his studies Weber made a distinction between those who could wield power and those who were in authority. The investiture of an individual with authority, he reasoned, legitimised voluntary acceptance of an order.

Weber, an individual who has been consistently difficult to pigeonhole, was always something of a polymath. His studies of religions, for example, led to a recognition of the influence of the Protestant ethic on western capitalism.

"The organisation of offices follows the principle of hierarchy; that is, each lower office is under the control and supervision of a higher one." Max Weber (1864-1920).

Worth Reading: The Theory of Social and Economic Organisation, Free Press, 1947.

Richard Donkin

NEWS FROM CAMPUS

Negotiating a new course

How to negotiate successfully is a hot topic on the business school curriculum. It is not surprising, then, that Harvard University, the Massachusetts Institute of Technology and Tufts University in the US have got together to offer a two-day programme for senior executives on the subject.

The Programme on Negotiation for Senior Executives will teach participants how to influence the behaviour of the other side and to make better deals. The course will run eight times in the coming year.

The Programme on Negotiation: US, 781 339 1111

● The Centre for Trade and Commercial Diplomacy at the Monterey Institute in California is now running two degree programmes on commercial diplomacy which deal with such topics as negotiation, mediation, cross-cultural communication and settling trade disputes.

The one-year masters degree in Commercial Diplomacy is for experienced executives and government officials, the two-year masters is for students new to the field.

Monterey Institute: www.miis.edu/research/ctcd.html

Unicon annual conference

Unicon, the executive education consortium of nearly 70 business schools, will hold its annual conference at the Kellogg school at Northwestern University in Illinois from April 5.

On the agenda will be the problems of strategic alliances and the use of open-space technology.

Kellogg: US, 847 467 7036

Development in Yorkshire

From April, small- and medium-sized companies in Yorkshire will have their own development programme to help them become more competitive.

The Business Masters programme is being organised by the University of Bradford Management Centre in conjunction with other regional organisations. The 12-month programme will be launched in Bradford on February 26.

Bradford Management Centre: UK, (0)1274 384393

Japanese target group

Japanese-speaking managers or students are the target group of career management consultancy DICR Europe, for its first London Career Forum. The forum has been arranged to handle a growing demand for Japanese speakers from companies based in the UK.

DICR Europe: UK, (0)171 493 1533

Rugman joins Templeton

International business specialist Alan Rugman has joined Templeton College Oxford as the Thames Water fellow in strategic management. Mr Rugman, a Canadian, has been a consultant to large companies, the Organisation for Economic Co-operation and Development and Canada's International Trade Advisory Committee.

Templeton: www.templeton.ox.ac.uk

Information for News from Campus should be sent to Della Bradshaw, FT, Number One Southwark Bridge, London SE1 9HL Tel: 44 171 873 4673 Fax: 44 171 873 3950

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Professors Daniel Muzyka and Charles Waldman co-direct this programme. Professor Muzyka was a consultant and entrepreneur before turning to academia. His research is in the areas of venture capital and managing growing businesses, especially in maintaining entrepreneurship as they grow. Professor Waldman's main interests focus on marketing, distribution and service-issues. He is also involved in management consulting and was previously Senior Vice President (Marketing) with Club Med Inc in New York.

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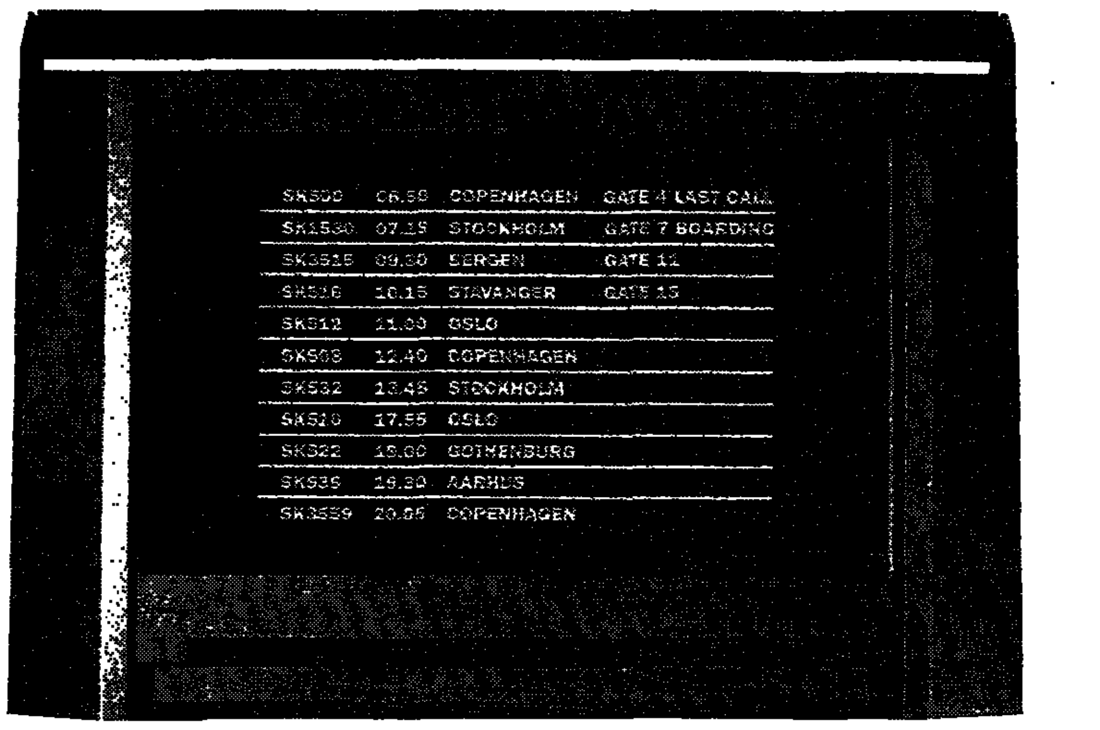

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SCANDINAVIAN AIRLINES

Travel Update · Roger Bray

Two-faced flight

Travellers flying the Atlantic from Brussels this summer will be able to choose from the distinctive cabin services of two different airlines – on the same aircraft.

The unusual arrangement stems from a co-operation deal between Sabena and City Bird, a privately owned Belgian carrier. It will be introduced on flights to and from Newark New Jersey, Montreal and the Brazilian city of São Paulo. Sabena will supply the pilots and operate business class and one of two economy cabins, while its partner will provide service in a separate economy section.

Paris hopes

With French and US officials scheduled to resume haggling over open skies this week, American Airlines is hoping they will clear the way at last for its proposed non-stop service between Los Angeles and Paris.

The airline finds the delay all the more galling because it believes its planned operation should not be affected by the talks. Says the airline: "Since TWA stopped flying it in 1994, rights have existed for another foreign airline to fly the route."

Amex rand move

American Express is to sell South African rand travellers' cheques. The move follows the establishment of a joint venture between Amex and a group of South African banks. Customers will be able to use them without having to pay commission at those banks and at some 2500 other outlets across the country.

South Africans travelling abroad will be able to cash them in more than 50,000 places.

Lounging about

No need to pay premium fares to pamper yourself in an airline lounge. Members of Wexas, the London-based travel club, can now use more than 80 lounges for what it describes as "a nominal charge", usually £14. They may pay on the spot or through the club. Membership costs £48.98 a year.

Risky business

Brazil is rated one of the world's riskier countries in a new league table from business travel insurance specialists BTI. The company cites armed robbery and carjacking as two of the biggest dangers.

It compared hazards in 10 countries where imports from the UK have grew fastest between 1992 and 1996. Basing its assessment on claims and scoring each country from one to 10 – the higher the number, the greater the danger – it rates Albania the most dangerous. Brazil gets eight.

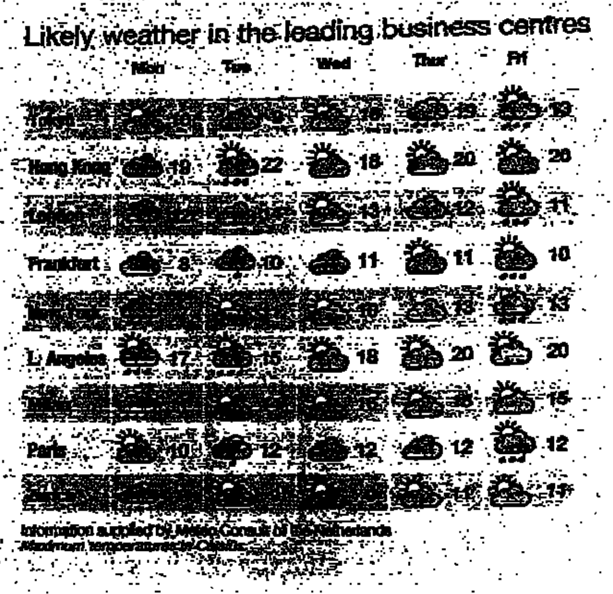
Jordanian comfort

Royal Jordanian is about to launch a new deal for business travellers on flights between Amman and Europe. From Sunday it will scrap first class in name but offer the same service at business class fares.

The airline has already made similar changes on routes to the Indian subcontinent and Asia.

Bike valets

Valet parking for cyclists is now on offer at the recently refurbished Royal Garden Hotel in London's Kensington. Claiming to have noticed an increase in the number of visitors pedalling there for meetings and lunches, it promises to store bikes securely and keep helmets and gloves warm.



The science of good design

Hotels are waking up to the problems of badly planned rooms, says Scheherazade Daneshkhu

We were travelling to Birmingham when we pulled up outside a Regency hotel recommended by the guide book. We had to look twice at the building for signs of its 18th century exterior, but certainly agreed with the book that the rooms were "compact".

The low ceilings, gloomy lighting and inadequate cupboard space were bad enough. But worse still was the clarity with which the conversation next door could be followed and the clatter of footsteps upstairs.

Lack of adequate soundproofing is one of the most common design faults in hotels, according to a recent report from Pannell Kerr Forster, the London-based hotel consultant. Other mistakes include badly located kitchens which result in food being cold by the time it reaches the guest, lack of storage space and lack of maid's service areas on bedroom floors, which results in poor service.

"Good hotel design has to respond to what the customer wants rather than what the architects or hotel designers think is required," says the report. It believes that too many hotels run the risk of satisfying the egos and aspirations of the owners or designers instead of guests' needs.

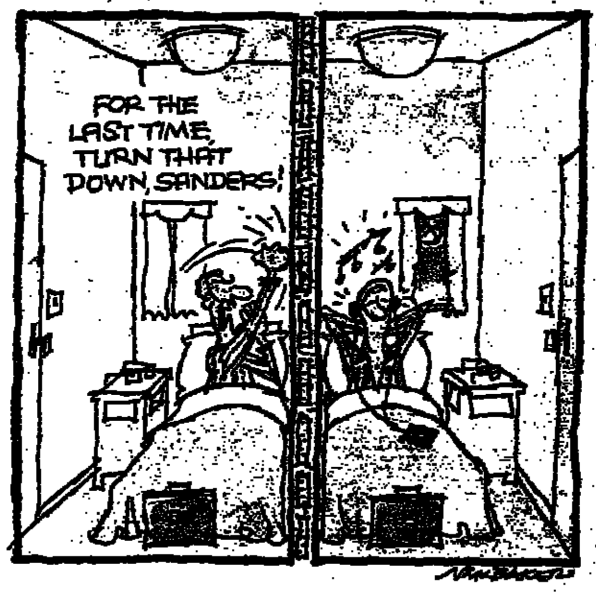
"Hotels have to be designed and built in an efficient manner. Hotel design is both a science and an art – but the art comes later," says Stan Dixon, director. "As consultants we have stayed in hotels where the morning call is provided by the couple in the next room having their first argument of the day; where the breakfast arrives cold and the waitress is exhausted by her trek from the kitchen, and where the car park is the final resting place for last week's rubbish."

Strong stuff, but PKF is coy about naming the worst offenders. "They tend to be prestigious five-star hotels, but we have also stayed in budget hotels with a lot of sound transmission," says Roger Stevenson, senior consultant, who also says that in general hotel design is getting better.

Other offenders are those running a hotel for the first time, perhaps as franchisees, who do not appreciate the amount of planning needed in designing a room and may be too inexperienced to give the architects an adequate brief.

"Sometimes you are in bed and reach out to switch off the light only to find that the switch won't turn off all the lights so you have to get out of bed again," says Mr Stevenson. "Or there are times when you try to make yourself a cup of tea and find out there isn't a socket for the kettle which means you have to unplug something else." These sort of irritations, he says, can be avoided by proprietors by first building a mock-up room and testing it before endorsing the design.

As international hotel chains consolidate, there is a danger that hotel design can become characterless. This is a weakness which town-house hotels and small, often luxury, properties have exploited by marketing themselves as offering a more individualistic choice than a bland chain.



Balancing the chains' demand for cost-efficiency with the desire to build something alluring is a problem, according to Luca Clavarino, architect at the Milan-based Mario Bellini Associati. "The major hotel groups have increasingly evolved a standardised hotel product that enables operators to brand their products and deliver consistent amenities and services to their customers," he says.

"This means that it is more difficult for the architect to come up with a design that both meets a developer's requirements for commercial success and achieves the level of personality necessary to make a building attractive and of architectural value. That is the real challenge."

Hotel Design and Construction in the UK, Pannell Kerr Forster, New Garden House, 78 Hatton Garden, London EC1N 8JA, £250.

Scheme members shifted to KLM

Northwest Airlines is ejecting all 70,000 European-region members of its WorldPerks frequent flyer programme. From June 1, they will be transferred to the Flying Dutchman programme of KLM Royal Dutch Airlines. The move reflects a rationalisation of arrangements between the two airlines, even as KLM is preparing to sell its equity interest in Northwest.

KLM is taking over not only Northwest's frequent flyers but also its European reservations and ticketing.

Points are being transferred on generous terms, at least for WorldPerks' Gold and Preferred members. But Flying Dutchman, even at the top Royal Wing level, lacks many elements which keep WorldPerks competitive in the US market.

WorldPerks Preferred or Gold refugees, for example, will no longer get mileage bonuses for economy flights, threshold bonuses based on annual mileage or first class upgrade coupons for US domestic flights. They will also lose the ability to use awards for unaccompanied family members.

Clay Harris

Executives are brought to book

Do companies want their highly paid executives turning into travel bookers? New self-booking technology could do just that.

It is suited to those regularly making the same there-and-back trip. Aberdeen-based Seaforths Travel, which markets Ticket Window self-booking software, took just three-and-a-half minutes to complete a simple booking. A pre-stored itinerary was triggered on making the fresh booking.

"Not all travel is that way," cautions Andrew Collins, director of information technology at The Travel Company, a travel management company. "If you don't know exactly what you want and you have to look at all the flight possibilities it'll take longer."

Travel agencies welcome the innovation as it means they can be more productive in other areas. But companies have been reticent. "No-one's clamouring to do it," confesses Peter Kite, client services director at Hogg Robinson BTI, a travel management company. "They say, 'Why have a travel agent then do it yourself?'"

"Companies are not comfortable with it. They have to drive it and incentivise their employees to use it," says Collins.

Ahead of the pack is engineering and energy services multinational Halliburton Brown & Root Group. Norman Ryan, then corporate travel manager, pioneered the use of "look and book" PC-based travel reservations systems in 1995. Self-booking has been on trial in locations throughout the UK. People book domestic and international journeys, particularly to the US. "It's hard to get the users to find fault with the system," says Ryan.

He sees advantages in generating accurate pre-trip data, speeding up the checks on seat availability, reducing the processing costs and the need for so many approvals, and ending the frustrating games of "telephone tag" with travel agents.

The trial has raised issues, such as who owns the reservation, the necessity of installing an ISDN line, and the "embryonic issue of surfing the net" as Ryan calls it.

Ryan is considering the possibility of a carrot-and-stick approach if employees don't use the self-booking system. "We could always trim their bonuses," he muses. That's quite an incentive.

Gillian Upton

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ARTS

OPENINGS

BADEN-BADEN The Festspielhaus ... by German composer Hans Werner Henze ... Friday ... Symphony, two chamber music events and a round-table discussion with the composer.

LONDON The Serpentine Gallery in Hyde Park re-opens its doors on Thursday after lengthy restoration. The inaugural show, devoted to the work of Piero Manzoni (above and left), is designed partly to show off the modernised gallery, but also to demonstrate that the Serpentine's policy on experimental programming remains unchanged.

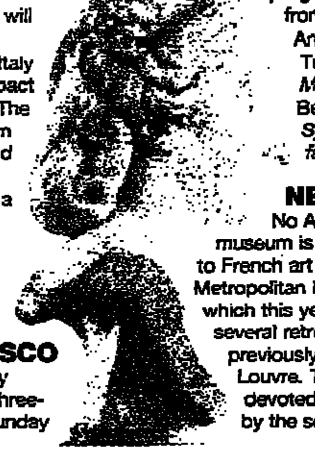
British sculptor Anthony Caro is the subject of the latest exhibition at the National Gallery. Opening on Wednesday, the show brings together a series of three-dimensional interpretations Caro has made of paintings by Giotto, Rembrandt, Van Gogh and others.

Ian Rickson, the new artistic director of the Royal Court, presents his atmospheric production of Conor McPherson's tender ghost story *The Weir* at the Theatre Downstairs (the Duke of York's) tonight. Previously seen at the Theatre Upstairs, the cast includes Jim Norton and Julia Ford (right).

Meanwhile Shared Experience's Nancy Meckler directs the premiere of Judith Thompson's *I am Yours* at the Theatre Upstairs (Ambassador's Theatre). The first night is Wednesday.

VENICE The main event of the art season on the Grand Canal is a Picasso retrospective curated by Philippe Regnier, director of the Musée Picasso in Paris. His selection will concentrate on the artist's first visit to Italy in 1917 and the impact it had on his style. The paintings come from important public and private collections, and are insured for a record $585m. The show opens on Sunday and runs until the end of June.

SAN FRANCISCO The BBC Symphony Orchestra starts a three-week US tour on Sunday with a concert at Davies Hall. The tour, conducted by Andrew Davis, includes concerts in Las Vegas, New York and Boston, with programmes ranging from Mark Anthony Turnage's *Momentum* to Berlioz's *Symphonie fantastique*.



NEW YORK No American museum is more attuned to French art than the Metropolitan Museum of Art, which this year features several retrospectives previously shown at the Louvre. The first is devoted to work (left) by the sculptor Augustin Pajou (1730-1809). Opening on Thursday, it includes his monumental marble figures and highly expressive designs for the royal opera at Versailles.

MUNICH On Wednesday the Bavarian State Opera gives the German premiere of Tippett's *The Midsummer Marriage*. Mark Elder conducts a staging by Richard Jones, and the cast is headed by Philip Langridge, Lauren Flanigan and Alison Hagley.

VIENNA Two operas by Benjamin Britten have their Viennese premieres this week. The Kammeroper presents *The Rape of Lucretia* tonight, followed by *A Midsummer Night's Dream* at the Volksoper on Friday. Both will be sung in German.

Sensation on sea

Two contrasting museums in Stockholm celebrate the old and the new, writes Colin Amery

Stockholm is launching itself as the Cultural Capital of Europe for the year 1998 in a quietly spectacular way, with the opening of not just one but two museums.

Rafael Moneo, the Spanish architect, won an international competition in 1991 to design both a new museum of modern art and an architectural museum on the island of Skeppsholmen in the old naval centre of the city.

The site is magnificent, on one of Stockholm's many islands with a view towards the unspoilt skyline of old Stockholm, dominated by the Nordic Museum and the remarkable structure that houses the ancient Viking ship, the Vasa. Skeppsholmen was once the home of the Swedish navy and the great 19th century drill halls and earlier rope manufactories are now adapted to museum uses.

But the one dominant element all around is the sea. It is an active sea, moving in the strong low Nordic light and alive with ships of all sizes. Stockholm belongs to the sea, and its architects – until the latter half of this century – have realised this, and built landmarks on the rocky islands to greet the sailors.

Rafael Moneo's new museum of art, the Modern Museum, adds some 20,000 sq m of gallery and exhibition space and joins it to the 19th-century naval buildings. He has opted for an unusual approach to the site, keeping a low profile for his galleries which rise, with blank walls, out of the rocks. His skyline of pyramid-shaped roofs and tall lanterns suggests maltings or marine industries, while their Roman-pink stucco walls evoke more Mediterranean islands. His museum is a solid presence that is almost fortified from the sea.

Inevitably Stockholm's new museum will be compared with other recent museum openings, especially the Getty Museum on its Los Angeles hilltop, designed by Richard Meier, and downtown Bilbao's Guggenheim Museum, designed by Frank Gehry. The Getty is a modernist giant, which feels as fortified as any Dalai Lama's palace in Tibet. The Guggenheim is a glorious adventure that gleams with sculptural originality at the end of every vista in Bilbao.

Stockholm's new Modern Museum is much more conventional. It is elegant and generous, but its collections and exhibitions have been placed inside a hermetic, private world.

On the seaward side of the gallery spaces is a brilliant restaurant, with incredible views. On the inland side, the gallery is approached via a long, wide, bright corridor flanked by groves of birch trees; this is the path to the sealed shrines dedicated to the solemn worship of 20th-century art.

Visitors are only allowed two glimpses of the outer world from the galleries. The high roof and tall lanterns have been glazed in a way that lets in very little natural daylight. I was told that the old bugbear, "conservation", meant that real light is taboo. The result is a series of formal, mainly square, rooms that follow a controlled grid, dignified spaces that are conducive to high level contemplation rather than active enjoyment.

As a result, it seems that the liveliness of Stockholm's good contemporary art collection has been suppressed by the building. This is not true in the Architecture Museum, where the main exhibition space is a converted drill hall, with a lively installation by the Swedish architect Thomas Hellquist. Moneo's additions to this element, a café, a beautiful library and offices, are all modest, low scale and agreeable to use, following much more in the Swedish modern tradition. But the contrast between the halls of art and the seaside restaurant is incredible. Art clearly has to be endured, while food and drink and views of the sky and the sea are clearly to be enjoyed.

However, the Modern Museum's curators seem to have reacted to their serious new home with an enjoyable sense of anarchy. There is the inevitable Carl André, rusting slabs of steel on the corridor floor; and the usual silliness from the Chapman brothers, pathetically trying to shock with their toy models of "The Disasters Of War".

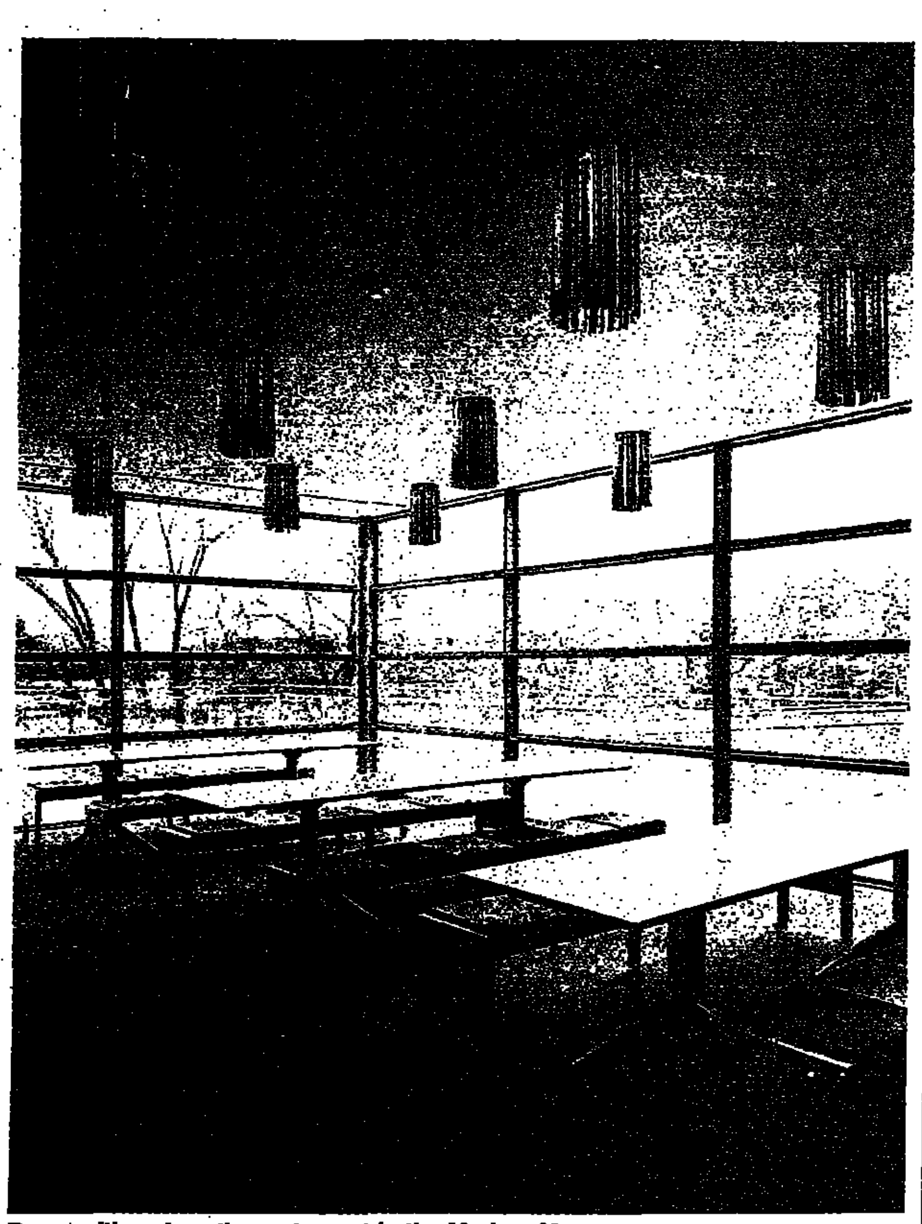
This kind of sensation is now de rigueur for museums of modern art and David Elliot, the new director in Stockholm, has followed the form. His opening exhibition is encouragingly entitled "Wounds", and attempts to explore the injuries caused when art "cuts through the comforting surface of conventional culture". The exhibition takes on contemporary life over the past 40 years – it is too much. It is hard for the artists to rise out of the pretentious argument.

It is in the display of the permanent collection that anarchy truly reigns. Under the subtitle of "Dialogues", juxtapositions are made to provoke both laughter and debate. Marcel Duchamp's "Urinal" (1917) is placed in front of Picasso's monumentally beautiful figurative picture "La Source" of 1921. A Braque landscape is cornered by a vibrating iron mobile by Alexander Calder, which is under the eye of Rauschenberg's dead sheep stuck in an old tyre, called "Monogram 1955-1959". It is hard to hear dialogue at this point. Perhaps the coolest display is Constantin Brancusi's memorably simple sculpture, "The Newborn" (1920), put among the glass detritus of a pointless work entitled "Sperm Piece", by Kiki Smith, of 1991.

Rafael Moneo's tall galleries were, at least at the opening, ringing with laughter at the bizarre and ludicrously provocative nature of the opening displays.

The Architecture Museum is much more intelligently displayed, with the main exhibition defining the historical elements that produced the special qualities of Swedish 18th and 19th century architecture. The first temporary show, called "Rooms on the Run", amusingly explores the collapse of formal space into the vacuity of Modernism. At its heart is an inner room of treasures that shows how rewarding the display of objects for pleasure and education can really be.

Stockholm now has two new museums that should be seen. The Modern Museum may find itself limited by the formality of its galleries that seem utterly counter to the way forward for modern art in the city. But the Architecture Museum is a small gem; and the views from the blond restaurant bring Stockholm to life in a dazzling way.



Room with a view: the restaurant in the Modern Museum

Opera/**Richard Fairman**

A 'Butterfly' to reach the masses

It is probably a better class of lunch invitation in Raymond Gubbay's diary these days. While the nation's opera companies are collapsing, Gubbay the musical entrepreneur is thriving, which must interest ever-more despairing singers, conductors, producers and their agents.

Want a contract for 14 performances in front of a total audience of about 60,000 people? Gubbay is your man, currently filling the Royal Albert Hall for his production of *Madam Butterfly*. This is the third joint venture into opera by the hall and Gubbay, its chosen private sector partner, and it is easily the best. Hopefully, we are seeing the upward swing of a learning curve that is going to continue.

Whatever doubts one might have entertained in the past about the artistic merit of a Gubbay evening, there is one thing nobody can deny: he is a maestro when it comes to marketing. At a time when opera companies are fighting against a public backlash, Gubbay manages to sell his productions as "people's opera" or "opera for everybody" – buzzwords that must make every Royal Opera lip curl into a wry smile.

The selling point of this *Madam Butterfly* is that the arena of the Royal Albert Hall has been flooded. Actually, the water is barely paddling depth, but it does make for a picturesque setting. David Freeman's production, designed by David Roger in the round (like the previous two Royal Albert Hall presentations), starts out in a Japanese idyll of water gardens and blossoming trees, but as tragedy draws near, the landscape equally turns arid and harsh.

This is the one producer's gloss on what is a thoroughly conventional production. Seeing the name of the experimentalist Freeman associated with this kind of mass entertainment raised some eyebrows in advance. Surely he could not resist his penchants for slow-motion acting or singing in the nude? But no – this is a standard *Madam Butterfly* and nobody in the cast feels a need to rip off their kimono and go streaking across the stage.

Its distinguishing feature is simply that it is well done. The contribution of the many extras, local Japanese townsfolk and children, is nicely detailed; and the atmosphere is charmingly evoked, from the nightlights floating in the water during the love duet to the lanterns that glow throughout the humming chorus. Nor does Freeman miss the social comment. Butterfly's careless rejection of her "ancestors" clearly sends a chill through her family.

The cast all look their parts – even if somebody sitting in the back row of the balcony would need a telescope to see them at all. The Chinese-Canadian soprano Liping Zhang makes an ideal choice as an Oriental Butterfly who can also sing the English translation with decent clarity. One of the strange things about singing opera with a microphone is that it needs the kind of voice that sounds good on record rather than on stage. Zhang has purity and beauty and at least sufficient power.

Craig Downes looks as if he might credibly have been a naval officer and sings cleanly, if with rather reedy tone. He lights up a cigarette at one point, in front of the children too, so it is not just film stars on the health advisory council's black list. Keith Latham makes an avuncular Sharpless and Marcia Bellamy a refined Suzuki, although some of the voices in this first cast would be pushed if they had to sing the opera without the help of amplification.

From its new position on the platform, rather than in a makeshift pit, the BBC Concert Orchestra, under the able direction of Peter Robinson, only occasionally drowned them. The orchestral balance works better like this, but opera was never meant to be performed in the round. It is all very well enjoying the performance from the luxury of the press seats. Way up in the gods, with poor sightlines and distorted sound, commercial opera might not seem such good value for money.

Performances continue at the Royal Albert Hall, London SW7 until March 1.

Liping Zhang and Craig Downes Alastair Muir

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Walküre: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Feb 25

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Beethoven and Mahler. With soloists including Alfred Brendel and Anne-Sofie von Otter; Feb 26

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Falstaff: by Verdi. New production conducted by Claudio Abbado in a staging by Jonathan Miller. Ruggero Raimondi sings the title role; Feb 24, 27

■ BOLOGNA

CONCERTS
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
András Schiff: recital by the pianist of works by Scarlatti, Haydn and Schumann; Feb 23

■ BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Duke Bluebeard's Castle: new production of Bartók's one-act opera, conducted by Lothar Zagrosek. Staging by Anne Teresa de Keersmaeker, who is also choreographer of Quatuor Nr. 4, which completes the programme. The sets for Bluebeard are by Gisbert Jäkel, with costumes by Rudi Sabounghi; Feb 24, 25, 26, 27, 28

■ CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Zubin Mehta in works by Crumb and Bruckner. With soprano Barbara Ann Martin; Feb 26, 27, 28

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Japan 2000: Architecture for the Japanese Public. Part of a year-long examination of the role of government in Japanese architecture. Includes drawings, models and photographs of public buildings including museums, dams and bridges; Kisho Kurakawa Gallery; to May 3

■ EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
Scottish Opera: Cosi fan tutte, by Mozart. New production by Stewart Laing, conducted by Nicholas McGegan; Feb 24, 26

■ HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
● Come back, Gabriel: world premiere of Ilkka Kuusisto's new work based on the true story of a confidence trickster who preyed on lonely women. Staging by Jussi Tapola, with designs by Anna Kontek; Feb 23
● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Okko Kamu; Feb 24, 27

■ LISBON

OPERA
100 Days Festival, Expo '98
● Kirov Opera: The Flying Dutchman by Wagner; Main Auditorium, Centro Cultural de Belém; Feb 23
● Kirov Opera: Sadko by Rimsky-Korsakov; Teatro Nacional de São Carlos; Feb 24
● Kirov Opera: Betrothal in a Monastery, by Prokofiev; Main Auditorium, Centro Cultural de Belém; Feb 25

■ LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● The Royal Opera: Andrea Chénier, by Giordano. Concert performance, conducted by Edward Downes. Cast includes Maria Guleghina and Anthony Michaels-Moore; Feb 23, 27
● Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Beethoven and Mahler; Feb 24

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hoheisel and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Feb 24, 26
● Xerxes: by Handel. Conducted by Noel Davies in a production by Nicholas Hytner, revived by Emma Jenkins; Feb 23, 28

■ LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
The Magic Flute: by Mozart. Revival conducted by Julius Rudel in a staging by Sir Peter Hall; Feb 24, 26

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Evgeny Kissin: first of five recitals in the UK to be given by the pianist; Feb 24
● Vienna Philharmonic Orchestra: conducted by Riccardo Muti in the orchestra's first performance in Manchester since the 1940s; Feb 23

■ MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Munich premiere. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; Feb 25, 28

■ NEW YORK

CONCERTS
Carnegie Hall
Tel: 1-212-247
www.carnegiehall.org
Sibelius Academy Symphony Orchestra: conducted by Esa-Pekka Salonen in works by Beethoven, Sibelius and Stravinsky; Feb 25

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Alvar Aalto: Between Humanism and Materialism. Centenary tribute to the Finnish architect, designer and town planner. Includes sketches, drawings, models and photographs, many of them loaned by private collections in Europe; to May 19

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Samson et Dalila: by Saint-Saëns. New production by Elijah Moshinsky, with designs by Richard Hudson; Feb 25, 28

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Leif Segerstam in works by Segerstam and Sibelius. With violin soloist Gidon Kremer; Feb 25, 26

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Minnesota Symphony Orchestra: conducted by Eiji Oué in works by Mozart and Tchaikovsky; Feb 24

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Favorite: by Donizetti. New production by Beni Montresor, conducted by Frederic Chaslin; Feb 24, 25, 26, 28

■ SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in Stravinsky's The Firebird. Programme also includes Copland's Clarinet Concerto; Feb 25, 26, 27, 28

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

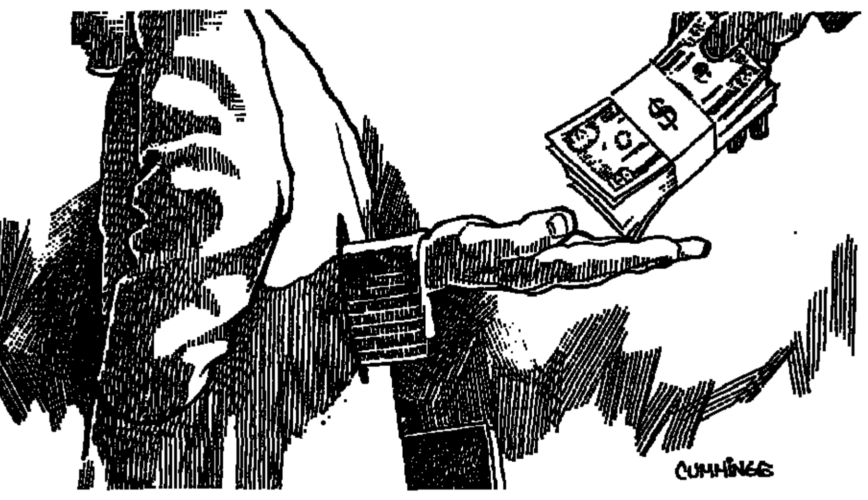
● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

A blow against bribery

Michael Hershman on the OECD campaign over corruption



In the first few months of this year, 34 countries will present to their national legislatures a convention making bribery of foreign public officials a criminal offence. The convention was initialled by the countries last December.

This coalition of diverse, industrialised nations – the 29 members of the Organisation for Economic Co-operation and Development and five others – has finally recognised what has been part of US law for 20 years: foreign bribery is a crime, not simply business as usual.

That recognition is long overdue. After years of difficult, often rancorous negotiations, OECD members have subjugated something of their national self-interest to the pursuit of a larger global good. One of the first beneficiaries may be the US.

The OECD convention smoothes out some of the inequities faced by the US since the passage of the Foreign Corrupt Practices Act in 1977. Because of the act the US has, for the past two decades, been hobbled by laws prohibiting bribes to foreign officials, a restraint that is absent from the laws of its trading partners. According to sources from the US Department of Commerce, American companies lost more than 100 international contracts, valued at $45bn, in 1994 and 1995 as a result of bribery.

Transparency International, a not-for-profit organisation that campaigns against corruption in international business, applauds this action. The convention confirms a trend towards giving more weight to ethical issues in international matters which began with the Foreign Corrupt Practices Act passed in the aftermath of the Lockheed scandal. Over the years, the trend has won the support of many international bodies, including the United Nations, the World Bank, and the World Trade Organisation. Together, they have made it clear that foreign bribery is a costly crime.

And therein lies a new realpolitik, in which governments recognise that ethical issues are not separate from political and business ones. Essentially, bribery is an invisible tariff artificially boosting the cost of a contract, forcing prices up. Apart from the immorality of the act, it is poor business in that it stifles efficient free-market trade. And, as we have seen in countries as far flung as Brazil, Japan and Italy, corruption can subvert and destroy political processes.

Fortunately, the convention is more than moral posturing – it has practical and far-reaching consequences for international trade. While it would be foolish to suggest that it will create a level playing field, it does create the prospect of fair trade. And while it will not eliminate bribery and corruption, it heralds a mitigation of obstacles to fair play and economic growth – if it is effectively enforced in each country.

That's a big "if". Bribery has a proven history of giving competitive advantage to the bribe-giver and wealth to the bribe-taker in developed and developing nations alike. The question that the parliamentarians discussing the OECD convention need to ask is: at what price?

In developing countries, the price of bribery is treacherously high. It siphons off scarce resources to often useless projects. Middle and lower-level civil servants receive such low pay that corruption is merely a means to survival. Reforms must begin with a nation's leader and filter down to civil servants if there is to be any expectation of long-term, permanent change. At present many countries do not have adequate laws addressing corruption and lack internal mechanisms to police it.

As the OECD convention makes clear, industrialised nations hardly serve as models to emerging nations. US multinational companies have complained for years that in many countries, price and quality are discounted in the awarding of public contracts. Inhibited by the corrupt practices legislation, US companies have not been able to export to certain countries, or sign trade agreements, while other OECD members entered emerging markets unconstrained.

That is why strict conformance rules should be embedded in the legal structure of member countries in order to monitor obedience to the OECD treaty. It would help to bind each country, and mandate strict and aggressive enforcement.

Such enforcement should include penalties, which would levy heavy fines and provide a significant financial deterrent. Removing a violator's export licence or barring companies from conducting business in a country if they have been convicted of bribery, could also be a valued deterrent.

Criminal prosecution of both corporations and individuals is essential. At present Japan does not have any laws permitting prosecution of corporations, only of individuals. The convention addressed this shortcoming by requiring such countries to provide "effective, proportionate and dissuasive non-criminal sanctions, including monetary sanctions".

The work remaining is daunting. Even modest success will require a sustained political effort by all 34 nations to implement and enforce the treaty this year. It will be a long and tedious process of negotiating and enacting laws in each member nation, and given the obstacles remaining, it would be easy to sink into an uneasy cynicism.

But that does not mean we should give up. The OECD convention endorses the criminalisation of bribery. That is a first step toward enforcement. Passage by national legislatures is the next step.

At a minimum, the convention reflects a new willingness by its member states to confront the ethical dilemmas of bribery and corruption. At best, it is an affirmation of international conscience stated in the light of a new realpolitik – bribery is bad for business and is bad business.

The author is chairman of Decision Strategies/Fairfax International, and co-founder and board member of Transparency International.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Direct low-wage tax credits to employers

From Professor Edmund S. Phelps.

Sir, Two recent columns urge tax credits to boost low-wage workers' employment and the reward to their work. My proposal, a credit to businesses for each low-wage worker, is endorsed by Martin Wolf ("A radical route to work", January 13). An alternative proposal, a credit to workers on their earned income, is viewed as superior by Samuel Brittan ("How to make work pay", January 22).

For Sir Samuel, the earned income credit "has the advantage that is closely related to family circumstances and special needs, of which a subsidy paid to the employer cannot easily take heed". For me this is a dubious advantage. In the worst case, such flexible credits would be tailored to pressure groups. (In the US, such credits go mostly to welfare mothers.) Even in the best case, the extra goal of adjusting up or down people's earned income according to "needs" would divert some budgeted funds from the main goal - the broadest possible employment of working-age people in the business sector at terms offering them self-support through their work. And the message "don't worry if you add to your needs" would be out of tune with New Labour's doctrine of responsibility.

Credits directed to the employer are less subject to fraudulent claims. Bogus "earned income" can be obtained in return for a piece of the resulting tax credit (as long as the credit exceeds the taxes). Tax credits to an employer on his low-wage employees are credits against the employer's business-tax liability; they would be of value only to legitimate and profitable businesses. Fraud could arise. Yet credits to businesses would be easier to monitor.

Crediting businesses, not earners, has another advantage, one not previously noted. In textbook economics it is not a matter of substance whether the buyer of a house want the cheque for the tax, so the price is in before-tax terms, or the seller writes the cheque, so the price includes the tax. If politics and fraud were absent, then, it might seem that nothing is to be gained from awarding the tax credit to the buyer of labour rather than the seller: either way, both employment and the total reward to work are pulled up. But the dynamics differ. The business credit impacts on hiring, promptly lowering the rate of unemployment; ie, reward to work responds to the tighter labour market, though only gradually.

The earned-income credit impacts on the reward to work; employment gradually responds to the cost reductions resulting from (for example) the greater job loyalty of the employed and the greater job search by the unemployed which the credits induce. Thus the job creation is less prompt, less quick, hence not really visible, not easily demonstrable to the public. To this day, the US's earned-income credits, while vaguely seen as encouraging entry into the labour force, are not clearly recognised as creating jobs and lowering the unemployment rate.

For low-end job creation through tax credits that are unpoliticised, cost-effective, relatively fraud-free and of acknowledged effectiveness, direct them to employers.

Edmund S. Phelps, Economics Department, Columbia University, 420 West 118th Street, New York, NY, 10027 US

2000 problem simply is not seen as a potential international emergency

From Mr Martyn Thomas.

Sir, You have reported on concerns that the UK's effort to beat the millennium bomb is losing pace and urgency. In reality, no sense of urgency has yet been created.

For 18 months, up to December last year, I led the Year 2000 service line for Deloitte Consulting worldwide. I have seen dozens of year 2000 projects in some of the largest companies in the world. Most companies had not finished analysing the extent of the risks they faced or the cost of repair or protection. In every case, estimates increased as the risks became better understood.

Forecasts of the impact of problems are based on survey answers by companies that have not finished their estimates, provided by managers who underestimate the problem. Most problems will not be found in time, but 2000 is not yet seen as a potential international emergency. Will the limited resources be focused on ensuring that power, water, transport and food are available and that emergency services continue to operate? Will there be serious and long-lasting infrastructure failures? No one knows, but there is a substantial risk.

There is plenty of evidence that the scale of the risk has not been recognised by governments. Emu-related computer system changes are taking priority in many companies, yet Emu could be delayed and monetary union will be tested to breaking point if there is a deep global recession early next century. The government could have announced that there will be no more legislation that would require widespread computer developments this century. The public sector could have shown leadership in tackling the problems with visible urgency, but keeping to spending limits has been given higher priority.

In your leader "East Asian shipwreck" (February 16) you write in another context: "This is a world of panic. Once panic begins, each investor rationally wants to escape before all the others." In the run-up to the end of the century, against a background of increasing computer system failures, what assets will investors want to hold? How soon will the rational investor want to escape?

Martyn Thomas, Holly Lawn, Prospect Place, Bath BA2 4QP, UK

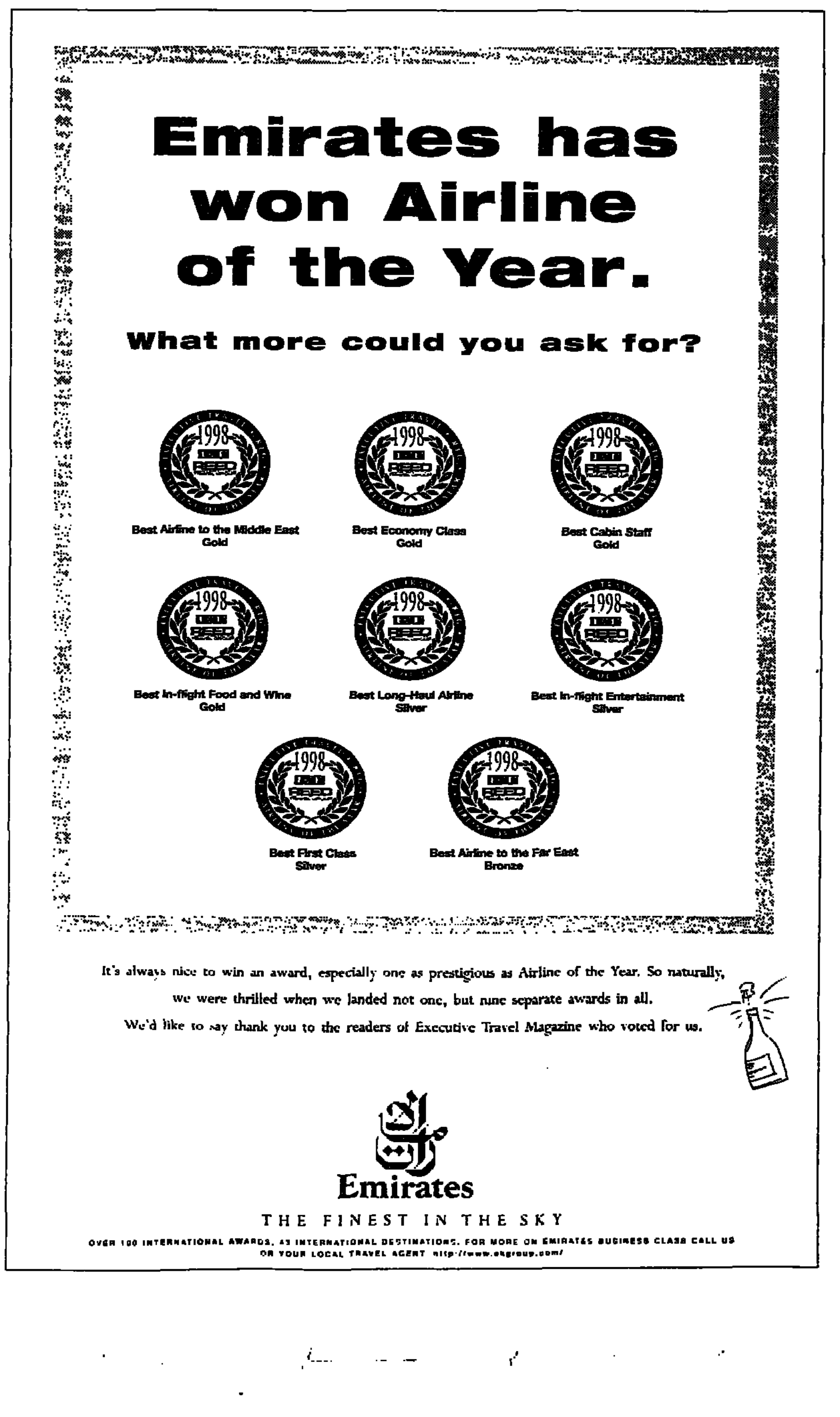
Bahrain has no spies

From Mr Abdul Aziz Mubarak Al Khalifa.

Sir, Your article "Bahrain spy chief replaced" (February 20) about Ian Henderson was incorrect on two counts.

First, the Bahraini government does not have spies. What it does have is a duty to ensure that Bahrainian citizens can carry on their daily activities free from the hurt and attacks of terrorists and religious fundamentalists. Second, there has never been an "era of torture and repression" in Bahrain. This predictable quote from the small group of dissidents in London should be treated with the contempt it deserves.

Abdul Aziz Mubarak Al Khalifa, Ambassador of the state of Bahrain, 98 Gloucester Road, London SW7, UK



Personal View • **Lars Calmfors**

An accountable bank

An independent European Central Bank has to accept democratic controls

Recent discussion about the European Central Bank has focused almost entirely on who should run it. This is unfortunate. It diverts debate from the issue of substance: how to strike a balance between the independence of the new bank and its democratic accountability.

Central bank independence is a means of achieving low inflation. But making a central bank independent creates the risk that it will act mainly in its own interest. So there should be democratic control. But if this is taken too far, the bank's independence, and thus also price stability, may be threatened.

The instruments of democratic control will be much weaker in the case of the ECB than they are for existing national central banks. The ultimate threat is that independence may be circumscribed if the central bank performs badly. This would be much harder to apply to the ECB, because it would require all member states to agree on a revision of the Maastricht treaty. The ECB's role as an EU decision-making institution will also give it more protection from political control because the economic policy debate is still conducted mainly at a national level.

So, in the long term, there needs to be discussion about what design would represent the best trade-off between independence and accountability. But if the bank is to acquire the necessary political legitimacy from the start, the problem of accountability has to be addressed now. Otherwise, there is a great risk that the common monetary policy – which at times will go against the interests of individual countries – will be perceived as illegitimate. This may in the end have devastating effects on the EU in general.

The Maastricht treaty leaves public opinion as the main instrument of democratic control of monetary policy. This can only function satisfactorily if people know clearly what the bank is seeking to do and what its options are – that is, if there is sufficient transparency of monetary policy decisions. This will impose several requirements on the ECB.

The bank should announce a quantitative inflation target, so that there is a measure against which to evaluate its performance. Because the relationship between money and nominal income is unstable, an inflation target is better than a money supply target for the purpose of accountability.

An inflation target would help stabilise output when demand shocks occur, because inflation and output then move in the same direction. But with supply shocks, such as indirect tax increases, oil price increases, and natural disasters, this is not the case. Therefore, the bank should indicate how it would interpret the price stability goal in such situations. It is better for both credibility and accountability to have a strategy for such events prepared in advance, rather than to react in an ad hoc way.

The bank should publish its inflation forecasts and the judgments behind them, so that its decisions can be scrutinised in public discussion. The ECB should also publish summaries of discussions in its governing council, so that the considerations behind its decisions become known. Voting behaviour of individual council members ought also to be made public.

The French government has supported the idea that there should be an "economic government" to act as a political counterweight to the ECB. The risk with this is that the bank's independence could be jeopardised.

A less risky way to improve accountability is to strengthen the European Parliament's role. This would seem to be more in line with the Maastricht treaty. Under this, the ECB president must present the bank's annual report to the parliament, and members of the executive board can be summoned to parliamentary committee hearings.

The legitimacy of the bank's inflation target would be strengthened if the parliament formally endorsed it. This would also make it natural for parliament to take a view each year on how well the ECB has performed and to require the bank to respond to the evaluation.

An agreement between the bank and the parliament could be a way of formalising the process of accountability.

In view of the long term of office for the executive board and its independence when once appointed, there is a strong argument that a nomination should formally require the assent of parliament. Parliamentary approval could also act as a safeguard against political compromises between national governments which could lead to less suitable candidates being nominated.

If the parliament's role is enhanced, self-restraint will be required. The parliament must not block nominations just to obtain concessions in other areas of EU decision-making. To make bank hearings as widely publicised as possible, they must not occur too often. It would be counter-productive to stage hearings every time the ECB changes the interest rate.

If the bank is to take parliament seriously, then parliament needs to ask sensible questions. So it needs qualified staff and outside experts to evaluate monetary policy. For the same reason, it must take the price stability goal seriously and try not to burden monetary policy with tasks it cannot accomplish, such as raising long-run growth or employment. But the parliament could play a useful role by emphasising that it can be as bad to undershoot the inflation target as to overshoot it.

The main worry is that the European Parliament has a weak standing in the eyes of the public. This could lead to serious deficiencies in accountability, with adverse consequences for the legitimacy of economic and monetary union as a whole. It is hard to know how to cope with such a situation. One idea might be to require members of the ECB's executive board to appear in hearings before national parliaments as well as the European one.

As the Maastricht treaty stands, it is mainly the ECB itself that will decide the extent of its accountability. So it is important that the management of the bank realises the importance of democratic control. Therefore, the views on accountability of those nominated to the executive board should be scrutinised carefully in the nomination procedure. It would be a great step forward if the discussion of the candidates to head the ECB could focus on this issue.

Nominees for ECB presidency: Wim Duisenberg (left), head of the European Monetary Institute, and Jean-Claude Trichet, governor of the Bank of France

The author is professor at the Institute for International Economic Studies at Stockholm University.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Monday February 23 1998

The agenda for Congress

Members of the US Congress return to Washington this week armed with a better understanding of the extraordinary popular currents now driving American politics. During their week-long break, many will have had their ears bent on the captivating subjects of President Clinton's private life and the impending military strike against Iraq.

Perhaps more important, they will also have begun to get a feel for their constituents' view of the big domestic legislative programmes they will now consider. These initiatives on pensions, healthcare, education, and taxation could well be of greater long-term significance for the US than the current noise of sex and war.

The Republicans who control Congress were caught off guard by Mr Clinton's policy activism in the first few weeks of the year. In his budget earlier this month he produced a popular set of proposals which, in an election year, may command surprisingly strong support, with even some Republicans refraining from opposition. But while some of the reforms have merit, Congress should think hard about the detail and, more broadly, about the direction in which they appear to be taking US social and fiscal policy.

On the face of it, Mr Clinton's plans seem to accord with fiscal prudence. Their core aim – to "save" any budget surpluses over the next few years to help shore up social security, the state pension system – seems laudably free of the temptation to squander the surplus on tax cuts or pork-barrel spending.

The overall strategy, however, is cloudier. In the not-so-distant future, the US will face the *same kind of demographic crisis* as most other industrial countries – an ageing population increasingly unable to pay for its older, non-working generation. This will affect not just social security, but also the burden of paying for health insurance for the elderly. In spite of some much-needed reform last year, Medicare, the insurance programme for retirees, is in a far worse financial state than social security.

Moreover, another element of Mr Clinton's budget could make the problem still worse. The president wants to expand Medicare eligibility to include younger members. Although his plan would be self-funding, it is easy to see how quickly broader coverage will come to be seen as an entitlement. Instead of trying to limit Medicare's liabilities in the next 20 years, and so contain its financial problems, the president is proposing to expand them.

Plans to spend more money on childcare are in the same vein: apparently small incremental increases in the government's responsibilities that could ultimately be very costly. They suggest that what the president has in mind by "saving social security" may be a further extension of fiscal obligations.

Members of Congress should remind themselves and the White House that the US is in an unusual – probably unrepeatable – position of fiscal balance as a result of the rapid growth of the past few years. From this position they should already be thinking about the difficult choices that will have to be made if today's healthy budget is to be made to last.

Push for peace

Tony Blair is said to be pressing for agreement in the Northern Ireland peace talks by early April. That sounds wildly unrealistic, at a moment when Sinn Féin has just been suspended from the talks because of breaches of the IRA ceasefire, and is threatening not to return. The huge bomb that destroyed the police station at Moira, County Down, on Friday night may not have been the IRA's work, but can hardly be expected to improve the atmosphere.

Yet Mr Blair is right to pile on the pressure. None of the latest events gives any ground for thinking that prolonging the talks would improve the chances of agreement. On the contrary, these events show how fragile the talks process is, and how vital that leaders who genuinely want peace stop putting off the moment when they spell out to their supporters the painful compromises that that entails.

Unionists are riled by the governments in London and Dublin leaning over backwards to keep Sinn Féin in the talks. If this meant the governments were willing to give Sinn Féin a veto on any settlement it would indeed be a grievous mistake. But the true objective, which unionists should share, is to maximise support among nationalists for a settlement that keeps Northern Ireland within the UK.

That can only be achieved if the SDLP, the main non-violent nationalist party, is kept on board and is able to convince its supporters that the settlement is worth having, whether Sinn Féin accepts it or not. If the ceasefire does break down and Sinn Féin does abandon the talks, it must be clearly its choice, not Mr Blair's.

Polish troika

When the leaders of France, Germany and Poland met in Poznan on Saturday, they were clearly all acutely conscious of the historic implications of their summit. Helmut Kohl, the German chancellor, was even moved to declare it was "the time for great visionaries". He saw this first three-way meeting of key European leaders from the west, the centre and the east as laying the foundation for the next century to be "a European century". Both he and Jacques Chirac, the French president, promised to urge the pace of negotiations for Poland to become a full member of both Nato and the European Union as soon as possible.

This summit was obviously far heavier on symbolism than it was on substance. That is not necessarily a bad thing. The warm welcome given to Mr Kohl on the streets of Poznan underlines the dramatic improvement in German-Polish relations since the fall of the Berlin Wall. And the meeting does provide practical confirmation of the end of Europe's cold war divide. The fact that Britain was not part of the occasion is a matter for regret, not least because it is the president of the EU. The UK government will also be absent next month when Messrs Kohl and Chirac meet Boris Yeltsin, Russian president, in Yekaterinburg, reviving once again that London is still something of a European outsider.

If Britain were to share in the vision, it would be able to bring a refreshing element of realism to such occasions, too. For there is a disturbing element of double-speak to the ringing words from the French and German leaders endorsing swift enlargement of the EU. For a start, both Mr Kohl and Mr Chirac have been guilty, on previous visits to Warsaw, of suggesting that Poland might hope to be a member of the club by 2000. This time they were not so specific, but still bullish, which is in danger of arousing quite unrealistic expectations. Yet they have to face up to a difficult period of economic restructuring in state-owned industries and agriculture before they can qualify. A target of membership by 2005 would be much more achievable.

It is not just the timetable that is misleading. In promising their political support for the process, both Mr Chirac and Mr Kohl are glossing over the real problems their own governments have with rapid enlargement. Mr Kohl wants it very much in principle, but in practice, his own government is adamant that it will not pay any more money to ensure it happens. More than that, Bonn is the most hesitant government in the EU on reform of the Common Agricultural Policy, without which enlargement will be impossible to afford.

As for Mr Chirac, he knows that France is thoroughly half-hearted about bringing Poland and other central and east Europeans into the EU, precisely because it makes reform of current policies, and institutions, essential. Perhaps he and Mr Kohl were more honest when they talked to Aleksander Kwasniewski, the Polish president, behind closed doors. Poland will be a full member of the EU, but both sides have to make difficult adjustments before it gets there.

The state we'd like to be in

Change is needed in pensions, work, housing and benefits to get the UK's public sector working properly, says Nicholas Timmins

The welfare state is in crisis. Expenditure is out of control. Social security spending has been growing faster than the economy as a whole, squeezing out much more desired spending on health and education. In addition, welfare itself is failing: more children are in poverty, more people are on means-tested benefits, while one in five households – double the number in 1979 – has no one in work in a society which has seen rapidly widening inequalities.

These are charges that almost any industrialised country could make against its welfare state. They are particularly strong at the moment now in the UK, where the Labour government is preparing for a Budget that will take a big step toward reform of the welfare state Labour itself founded in 1945. After all, the need for radical reform, for sharply reining welfare back, is plain, is it not? Well, yes and no.

The idea that the welfare state in its present form is unaffordable is, in fact, a myth. Among western industrialised nations, the UK is almost uniquely placed in that it is enjoying a *falling* social security bill in the measure that matters most: the share of the nation's income that it is taking. Since 1993, when it peaked at 13.6 per cent, social security has dropped back to 12.4 per cent of gross domestic product. It is projected to decline further to 12.1 per cent by 2000.

About half of this reduction is cyclical – the effect of falling unemployment. The remainder, however, is not.

"You simply cannot make the argument that in some way we cannot afford the social security system we have got," says Chris Giles, research economist at the Institute for Fiscal Studies. "The reason is the reforms that Margaret Thatcher and Peter Lilley made, chiefly to the present and future cost of pensions. The issue there now is not one of affordability, but of adequacy – that large numbers are now set to retire on pensions that *will* be too low to provide a decent standard of living.

"Social security may not be doing the job we would like, both in terms of adequate pensions, or in the structure of income-related benefits. But we can easily afford the cost of the present system."

The crisis, therefore, is less one of cost, but of how well the welfare state is working. Change is most needed in four areas: pensions, welfare and work, housing, and benefits for the disabled.

Pensions is the area where the government has put in some of its hardest thought. Cuts already made to state pensions mean that the issue now, according to Mr Giles, "is that large numbers are now set to retire on pensions that will provide too low a standard of living".

The result will be a rising bill for means-tested pensions. Hence the government's interest in creating "stakeholder" pensions to help the less well-off, and encourage those with inadequate private pensions to build up their pot. The big issue is compulsion: how much further should the government go in forcing people to save, and in requiring employers to contribute to individuals' private pensions? The government shows every sign of wishing to be forced down that road by public and professional opinion, while being wary of proposing the idea itself for fear that higher compulsory contributions will be seen as a tax.

The area where the government has moved fastest is welfare-to-work. From April, its £3.5bn programme will compel young people and the long-term unemployed into work or training. The next stage – the carrot to go with the stick – will come in the Budget, the first tranche of a package aimed at progressively making the low-paid better off. Its elements include a starting rate of tax of 10p, reduced National Insurance contributions for the low-paid, and an easing of the tapers – the rate at which benefits are withdrawn as earnings rise – extra help with childcare, introduction of a controversial working families tax credit to replace family credit, and in time, a minimum wage.

None of these changes on their own would make much difference to the working poor, or markedly increase work incentives. Together, they might do so. Gordon Brown's claim to be a radical chancellor in this area will rest on his ability, over time, to tackle all six elements of this tax and benefits equation at once: something no one has attempted since the much more radical, but failed, efforts to fully integrate tax and benefits in the 1960s and early 1970s.

The problem is that these measures will be expensive – whether in tax income forgone, or higher government expenditure. The argument for them is chiefly moral and political: that it is wrong to leave people permanently detached from the labour force, both for their own sake and for society's. A more inclusive society, the argument goes, is likely to be a better one, even if it is bought at the price of some compulsion to take jobs or undergo training; the now famous rhetoric of rights being matched by responsibilities.

It is much less clear that the argument is economic. Altering benefit tapers and making in-work benefits more generous is expensive. At least some of those helped into work would have got there anyway, so there is a dead-weight cost. And, as the US is discovering, welfare-to-work programmes tend to cost more per case, certainly for lone parents. Over time, there may be a payback as some of the low-paid climb the job ladder and if the economy operates more efficiently as a result. But these programmes are needed precisely because many of the jobs available are low-paid and low-skilled. They will not contribute a lot to GDP.

In addition, to make this work properly, it is not clear that Britain has yet learnt one of the key lessons from the American experience: that once people are put in to the US programmes, they stay there, facing a permanent requirement to take job placements, undergo training or undertake a job search. Even under the UK's "new deal", claimants face only a six-month spell of work or training. After that, however, it is back to the dole, an approach that has discredited welfare-to-work programmes in the past.

Housing benefit is the big unsung problem of welfare reform. Its cost – £12bn and rising – has doubled in real terms in a decade. And the system, according to Peter Kemp, professor of housing at Glasgow University, has become increasingly "sclerotic". It can lock people out of work. Greater use of private finance for housing association homes, for example, often means that only the unemployed on full housing benefit can afford the rent in new developments. There is almost no incentive or ability for tenants to shop around for cheaper rents or match the size of their accommodation to their needs. In addition, transfers within social rented housing in one part of the country and another are not easy: a critical issue for welfare-to-work when too often the unemployed are in one place but the jobs are elsewhere.

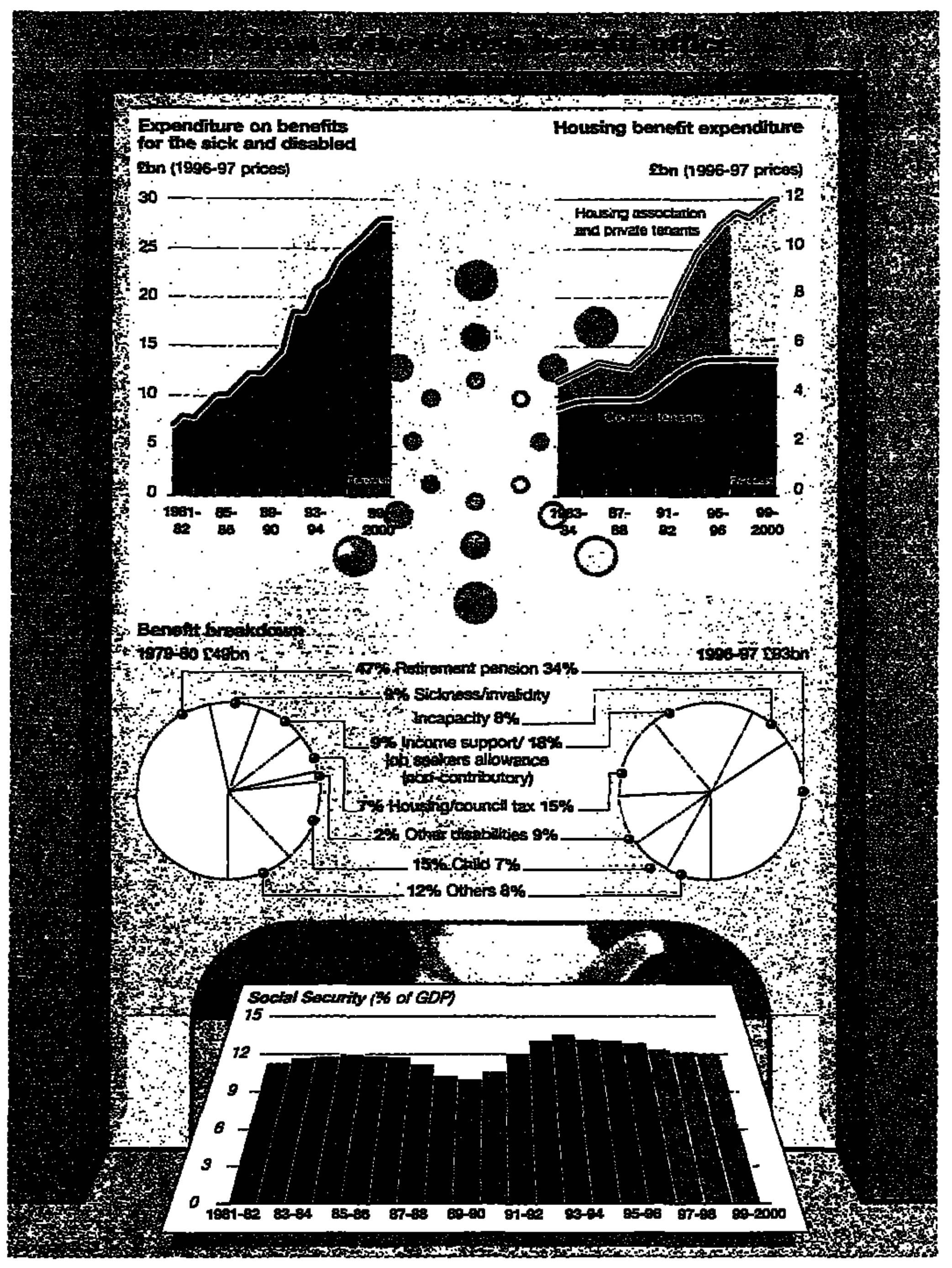
The golden goal has to be paying people a fixed sum for their housing, creating much more of a market that allows people to shop around, move more easily, and make trade-offs between housing and other expenditure. That involves, however, big reforms to housing policy as well as to housing benefit – tackling the way rents are set, tenancies are allocated and housing supplied. It is a goal that has eluded everyone since Beveridge who spent nine pages of his famous report musing on the problem before giving up. The huge disparity in rents around the country defeated him then and makes an overnight change to such a system equally impossible now. Any sensible reform, however, has to head in that direction. As the Institute for Fiscal Studies puts it: "Until the issue of housing support is addressed, no reform of the benefit system will be complete."

Equally difficult are disability benefits, the one area where spending might reasonably be described as out of control. The most rapid growth has been in benefits for people of working age, a rise "far greater than any reasonable estimate of an increase in the number of people with impairments", according to Richard Berthoud, professor of social policy at Essex University.

Some of this must reflect the changed labour market: that as jobs became tighter in the 1980s, employers' expectations of what the people they hired could do rose, *while the expectation of finding* a job among those with limiting, but not crippling, disabilities fell. Altering both sides of that equation will require a cultural change far more profound than requiring the able-bodied unemployed – or even lone mothers once their children have reached school age – to join work programmes. Dividing the "deserving" disabled from the "undeserving", particularly in areas of high unemployment, will not be for the faint-hearted.

As Labour has grappled with these issues since last May, it has become clear that not much of this is simple and real change is a long-term programme.

Expect, therefore, a Budget next month that will chart a fairly clear path on tax and benefits, but a green paper shortly thereafter on broader welfare reform that will be very green indeed. As Frank Field, the minister charged with the task, has been saying ever more loudly, it will contain no "big bang". The first likelihood of that will come in the summer when ministers face decisions on the comprehensive spending review: deciding whether they genuinely can reduce social security spending in the short term, or whether, as with welfare-to-work, they will have to spend to save.



· O B S E R V E R ·

Cherchez la femme

Is Japan having a bout of political correctness? The government's new panel of seven advisers on which banks should receive public funds includes a woman.

Yoko Sazanami, a professor of economics at Keio University, will be in her place when the group meets today, which will at least stop people referring to the panel as "the seven wise men". Even more startling for Japanese traditionalists, there are suggestions that she could be asked to chair the group.

Her very presence is radical stuff for the Japanese financial world, where women have traditionally been almost completely excluded from positions of power. It is only a decade since banks and brokers started to offer them the chance of proper "career" track employment at all.

If promoting women really is down to political correctness, it seems to be infectious. Some insiders at the Bank of Japan are muttering that it should include a woman on its new independent policy board.

The problem is that there are very few candidates around. The bank is looking hard, though it appears it hasn't come up with any real options yet. Professor Sazanaki could yet end up with two new jobs.

Swiss role

After the Nazi gold affair, Switzerland needs all the friends it can get. But relations with one country it used to be able to count on – Liechtenstein, with which it shares its currency and has no border controls – are not what they were.

The coolness began after Liechtenstein, unlike Switzerland, joined the European Economic Area. Now Switzerland is starting to use Liechtenstein as the dumping ground for its unwanted problems.

First it was Bishop Haas of Chur – the right-wing Catholic cleric. The Swiss tried for years to get rid of him, and eventually persuaded the Vatican to upgrade him to archbishop and send him up the road to Liechtenstein, which did not even have its own bishop, let alone a Catholic cathedral.

Now another unwanted Swiss icon has been dumped in Liechtenstein – The Fixer, a two-tonne, 2½ metre marble statue of a drug addict "shooting up".

It was commissioned for Zurich's infamous "needle park", which in its heyday was Europe's best-known drug dealing centre. Like the drug addicts, it was quickly removed from public sight. After two years gathering dust, the statue was shipped to Vaduz, Liechtenstein's financial capital, but the bankers rebelled and ordered Mario Frick, the prime minister of Liechtenstein, to find a home for it.

The Fixer has been placed in the garden of a former policeman – and faces Austria, rather than Switzerland.

Tender Trapps

The children of the Von Trapp family, elevated to folk hero status by the film The Sound of Music, are hardly singing in harmony these days.

The family escaped from Nazi-occupied Austria half a century ago and later became a professional touring vocal group, but now a bitter dispute has split the clan in two. The Vermont Supreme Court is considering a lawsuit claiming that one branch of the family shortchanged the other – to the tune of $3m.

At the centre of the fight is the inn built and managed by Maria Von Trapp and her brood in Stowe, Vermont, where the family settled after fleeing Europe. *After Maria, played by* Julie Andrews in the movie, died in 1987, discord crept into the dynasty. Johannes von Trapp, the youngest child, ran the inn until 1993, *when he was* ousted by rival family members.

He won back control the following year and paid minority shareholders – his sister and the children of two brothers – $2.5m for their share in the business. They now claim Johannes and his allies should have paid $3m more.

Johannes is threatening to sell the inn to an international hotel chain to meet their demands. Somehow Marriott's Trapp Family Lodge doesn't have the same ring.

Winter discontent

As Nagano said sayonara to the Winter Olympics yesterday, it wasn't just the fallers in the ski slalom who were feeling a bit sore. The fallout from the shock early exit of favourites Team USA and Canada from the ice hockey tournament spread wider than US broadcaster CBS, which had spent $375m on exclusive television rights.

The laws of the market also hit the ticket touts – mainly British – who paid handsomely for tickets for the later rounds of the tournament and found they could hardly give them away.

The stars of Team USA look *set to be fined heavily* for trashing their rooms in a post-match temper tantrum – though as millionaires they can presumably afford it.

Financial Times

100 years ago

Yukon Railway Schemes
Ottawa, 21st Feb. The London Syndicate has made an amended offer to the Government for the construction of the Yukon Railway. It proposes to build *from Pyramid Harbour to* Rook Rapids, a distance of 288 miles, for a land grant in alternate sections of one mile square for a distance of ten miles on each side of the railway from the Boundary to the rapids, or it will build from the Stickeen to Teslin Lake for a million acres.

50 years ago

U.S. Steel Prices
Representative U.S. steel men are being called to Washington next Thursday to explain *why they have added* $5 per ton to the price of semi-finished steel. A suggestion has been made, says our Washington Correspondent, that the U.S. Administration should consider whether the steel companies' action violates the Anti-Trust Act. Senator Taft, chairman of the joint Senate-House Committee on the Economic Report, said that the committee is unanimous in wanting an explanation from the steel men.

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FINANCIAL TIMES
Monday February 23 1998

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Watchdog on independence and objectivity endorsed

SEC warns US auditors of self-regulation review

By Jim Kelly, Accountancy Correspondent

The Securities and Exchange Commission has warned it might have to reconsider the system of self-regulation by US auditors in the light of mergers planned by several of the Big Six global accounting firms.

A statement endorsing a new body to monitor auditors' independence and objectivity says the accelerating trend toward consolidation of auditing firms requires the SEC's continuing vigilance.

"These events will be monitored closely and may prompt the Commission to reconsider certain of the accounting profession's self-regulatory programs," the senior US regulatory body said.

Similar concerns were felt by other countries and international stockmarket regulators, the SEC added. The formation of the new body, the Independence Standards Board (ISB), was announced last May by the SEC, in a joint initiative with the profession. It will address concerns over the growth in provision of management consultancy and other advisory services by the big firms since the early 1980s.

The publication of the SEC's official endorsement is believed to have been delayed partly because of debate over the inclusion of a rider over the self-regulatory system.

The SEC said it expected the board to take the lead in establishing and improving regulations governing auditor independence.

In the long term, the SEC hoped it would take on a similar role and authority as the Financial Accounting Standards Board – the private sector accounting standards organisation which has a worldwide reputation. Like the FASB, the new board will meet in public.

The SEC indicated it would review the board's role in five years "in view of the significance of auditor independence to investor confidence in the securities markets".

Observers in the US believe the SEC's warning over mergers signals its belief that the Department of Justice's anti-trust division would allow two mergers among the Big Six. Concerns in the department over consolidation in the industry appeared to have ebbed after the recent collapse of the global merger planned by KPMG and Ernst & Young.

But the SEC statement makes clear it wants accountants to know it is monitoring the trend for consolidation.

Andersen's strife, Page 21

Sales fever overtakes Thailand's limo lovers

By Ted Bardacke in Bangkok

The auctioneer, wearing the kind of cordless headset microphone much favoured by pop stars, thumped her gavel and opened Thailand's $19bn car sale with a jet-black 1997 Mercedes-Benz E230.

With potential buyers packed 20-deep in the midday heat, a bidding frenzy ensued.

The starting price of Bt1.7m ($36,000) was quickly eclipsed and the Mercedes eventually went for Bt2.1m – reasonable by western standards but 15 per cent more than the asking price for a similar model at a nearby used car lot.

The scene was repeated throughout the weekend. On offer at auction houses on the Bangkok's outskirts were more than 500 vehicles repossessed by several bankrupt finance companies that were themselves taken over by the government last December and slated for liquidation.

Car-crazy and bargain-hunting Thais flocked to inspect the Volvos and Land Rovers of the formerly rich, along with the Toyotas and Isuzus of the now struggling middle classes.

The result was one of the worst traffic jams in the city's history as people competed for the right to bring more cars back on the road.

Thousands more remain to be sold – as do billions of dollars' worth of other finance company assets, including bad loans, unfinished and ill-conceived office blocks and even art collections.

The proceeds will go to the finance companies' creditors – including the Thai government – and the asset disposal process is crucial for bringing Thailand's still-inflated asset prices down to earth.

Yet the weekend's auction had little deflationary effect. The Financial Sector Restructuring Authority (FRA), in charge of the liquidation process, believes it will recover less than half of the book value of the companies' assets.

But in Thailand the car makes the man and though starting prices were fair they consistently shot to stratospheric levels as people ignored warnings in the state-run media to be calm and calculating.

"Sure, the prices aren't cheap, but a lot of ego is at work here," said Montri Chenvidyakarn, assistant secretary general of the FRA, surveying a scene which had many bidders consulting on mobile phones with the unseen cash-rich in this collapsing economy. "Once the bidding starts people can't lose face."

The multinational financial institutions expected to dominate later rounds of bidding are unlikely to be as emotional. But the weekend's events suggest there may still be strong demand at Thailand's sale of the century.

First euro convertible bond issued

Continued from Page 1

certainty that monetary union will go ahead as scheduled.

Most of the 11 countries expected to qualify for the first wave of Emu have said they will quote domestic share prices in euros from January 4, 1999.

Wholesale re-denomination of share prices into euros is expected to occur early in the interim period between 1999 and 2002, after which all domestic notes and coins will be replaced by euros.

Officials at Paribas, which underwrote the issue, said Parmalat captured a wider investor base than it would have if it had priced the bond in the lira.

"Pricing the convertible bond in euros opens up a much broader geographic investor base than in a legacy [outgoing] currency," said a banker.

About 40 per cent of the deal – which was six times subscribed – went to investors in the UK and Switzerland, neither of which will join Emu in 1999.

Tony Bourne, head of equities at Paribas, said: "It shows there is enormous appetite from investors for euro-denominated equity-linked securities in advance of Emu."

Parmalat's eight-year bond can be converted into its equity at a premium of 34 per cent to Friday's reference price of L2,900 a share. The bond cannot be converted during the first two years of its maturity, and will pay a coupon in euros.

Blair considers further talks with Sinn Féin leaders

By George Parker, in London

Tony Blair, the UK prime minister, was last night contemplating a new meeting with Sinn Féin leaders in an attempt to keep the republican party involved in the Northern Ireland peace talks.

Martin McGuinness, Sinn Féin's chief negotiator, said he wanted to meet Mr Blair within the next 10 days to discuss the party's suspension from the talks until March 9, after two murders in the province were blamed by the police on the IRA.

Mr McGuinness warned yesterday that Sinn Féin's suspension from the talks had damaged the credibility of the peace process. He would be seeking an assurance from Mr Blair and Bertie Ahern, the Irish prime minister, that it was worth the party's while to return to the table.

Downing Street said last night Mr Blair was "considering" the request for a fourth meeting with the party's leaders, but he seems likely to agree if it would help to maintain momentum in the talks.

British ministers were relieved to be told by security forces that a bomb explosion on Friday night outside a Royal Ulster Constabulary station in Moira, Co Down, was not the work of the IRA. Security sources believe the attack could be the work of the Continuity Army Council, a republican splinter group.

Any further IRA attack would require Sinn Féin's expulsion from the talks. Gerry Adams, Sinn Féin president, said he regretted the bombing, which injured 11 people, and said: "The IRA cessation remains intact."

Mr Blair is determined to quicken the pace of the talks and has told participants they should conclude negotiations by May.

But it is understood the prime minister hopes the process could be completed by early April, in time for referendums to be held on the political proposals in both Northern Ireland and the Republic in May.

"He has told all the parties involved that they must get moving on this," Downing Street said. "We said the talks must be finished by May, and we are determined that target will be hit."

Mr McGuinness said the talks were in crisis, but said he would welcome any moves by London or Dublin to bring them to an early conclusion.

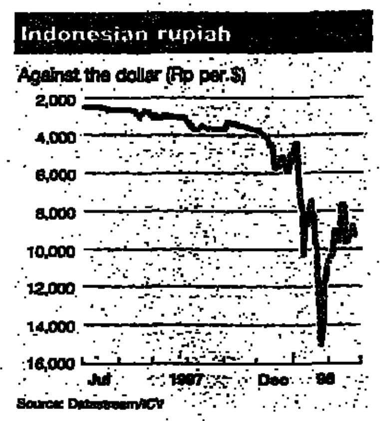
"Most people within the talks have come to the conclusion that if the present talks' participants were to talk for the next 50 years, they wouldn't agree a deal," he said.

"So I would welcome any attempt by the two governments to move forward decisively to encourage all of the parties to engage in intensive negotiations over a very short period."

Editorial Comment, Page 15

THE LEX COLUMN

Hostile comeback



Here is a straw in the wind: hostile bids are back in favour. Computer Associates has launched a $9.8bn unfriendly bid for Computer Sciences; Cendant is trying to bust up a marriage between AIG and American Bankers; and, in the UK, Great Universal Stores is gunning for Argos. After two years of decline, hostile bids have jumped from 9 per cent to 14 per cent of all US deals announced so far in 1998, according to Securities Data.

Traditionally, unsolicited bids occur at the bottom of the market, when corporate buyers think they see value investors have missed and use their cash to get it. This is hardly the case at present, at least in western markets. In fact, the opposite is probably true: the long bull market has so inflated perceptions of value that target managements are no longer willing to sell. On its own, however, this would merely lead to fewer deals. The increase in hostile bids, therefore, also suggests changing attitudes among buyers.

One positive change is that the stigma of launching an unfriendly bid is declining. Where deals are based on industrial logic rather than financial engineering, companies are increasingly confident of receiving investor support even if they go hostile. That has started to make such takeovers acceptable in countries like France and Germany. Even Korea has introduced them as part of its reform package.

But managements can be motivated by desperation as well as confidence. Where companies are bidding to shore up their own slowing growth or simply out of fear that they will be left behind by rival mergers, they will be tempted to overpay. A hostile bid can make sense, but investors should be clear about the motivation for it.

Indonesia

If, as reports suggest, President Suharto is retreating from the idea of a currency board, it would not be a moment too soon. Whatever technical merits the scheme may offer, to have introduced it in the current climate would have invited failure. Indonesia's perilous financial situation would have been left looking even more insecure.

Still, for all the invective thrown at Mr Suharto, he may be cannier than he has been given credit for. Merely talking about a currency board has boosted the rupiah. This is despite developments otherwise guaranteed to send it into a tailspin: the dismissal of his central bank governor and the nomination of the controversial minister, B.J. Habibie, to serve as his deputy. This, of course, is a dangerous game. If Mr Suharto's retreat is not orderly, a rout could ensue, erasing any gains seen so far. For Indonesia to restore its standing in the markets, there is no alternative to implementing the root and branch reform required by the IMF rescue programme.

Right now, though, Mr Suharto will need a fig leaf to cover any retreat. This could take the form of saying he remains committed in principle to a currency board, without specifying an implementation date. Conceivably this could allow Indonesia the best of all worlds: keeping the idea alive would lend support to the currency, but the central bank would continue functioning, providing policy flexibility.

Générale des Eaux

Does a name change signal the end of a transformation, or herald a second phase? Jean-Marie Messier, chairman of Générale des Eaux since 1996, can claim that the French conglomerate has been transformed. Problems, such as deep losses in property, have been tackled, if not completely solved. Several peripheral businesses have been sold, cutting debt, and the group should easily make its 1997 profit forecast of FFr5bn ($830m). But it remains spread across water, power, transport, construction, telecoms and media. So, will its plans for a new name be tied to a fresh push to define priorities? It would be nice to think so.

The danger is that the exercise will be cosmetic. The twin umbrellas of environmental services and communications, under which the group's activities are supposed to huddle, are rather broad and ill-defined. If the former means "utilities", transport could be bundled in with water, waste management and energy. But what of construction? It has links with utilities, but would leave this side of the group alone looking like a conglomerate.

What will emerge? The model for any holding company must be General Electric of the US, which has stuck with its original, albeit misleading, title. If that is what Générale des Eaux wants to emulate, its new name will need to mark a big change in management culture to deliver decent returns on roughly FFr160bn of sales. Surely further focusing would make both this task and the renaming easier.

Barclays

Does Barclays need a deal? Or is it just that newspapers need stories: the latest being that Barclays is poised to bid £10bn ($16.7bn) for Standard Chartered. On the face of it, Barclays does not need to make an acquisition. Leaving aside the losses on quitting investment banking, its annual results were respectable and showed its strength as a UK bank, particularly in business lending. It could obviously cut more costs through a domestic merger – hence the persistence of rumours about a deal with National Westminster. But the political environment looks hostile to a reduction of competition and, more generally, UK banks look expensive.

Will Barclays sit on its hands? Probably not, and neither will many of its peers. Martin Taylor, chief executive, this week referred to one of the forces for change: international banking consolidation. This can be more cruelly interpreted as saying that banks must either eat or be eaten. Mr Taylor spoke of the next decade. But in the UK, competition is gathering pace thanks to new retail entrants. In Europe the single currency is around the corner, hence considerable merger activity on the Continent. And in Asia the time for bargain hunting looks limited; and Standard Chartered is less expensive than it was, because of its exposure to the region.

Meanwhile, Barclays has reorganised its activities into four tantalisingly cross-border streams. How far and how fast they flow will show if Mr Taylor can expand a group as well as take a knife to it.

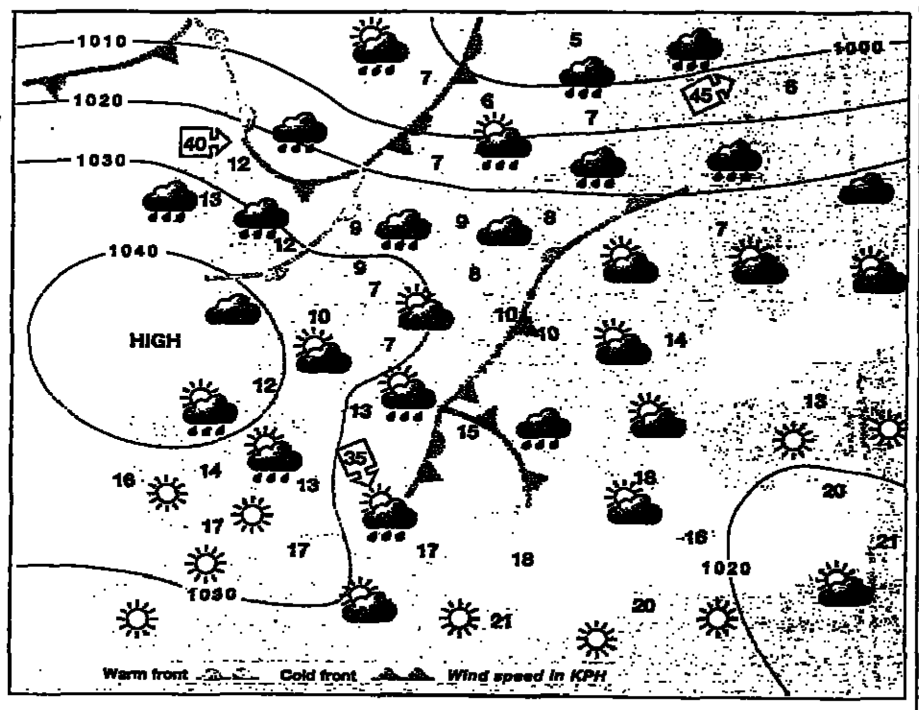
FT WEATHER GUIDE

Europe today

Central and northern Scandinavia and north-east Europe, will be colder and more wintry than recently with snow flurries. Denmark and southern regions of Norway and Sweden will be mild again, with rain spreading from the north-west. The Low Countries and northern Germany will start bright, but drizzle is likely this afternoon. Northern and western France should have a mostly fine day, but northern Spain, south-east France, Switzerland, southern Germany and Austria will have rain showers and mountain snow at first. Italy will become increasingly wet, but Portugal, southern Spain and south-east Europe will be dry and fairly sunny.

Five-day forecast

Showers over Italy will move east to Greece. The western Mediterranean and north-west Europe will be dry and settled as high pressure moves in. Southern and western Scandinavia will be mild with coastal rain, but Finland and north-east Europe will be cold with snow showers.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum/		Beijing	Fair 8	Cardiff	Cloudy 11	Frankfurt	Fair 8	Madrid	Fair 14	Rangoon	Fair 34
Celcius/		Belfast	Cloudy 12	Casablanca	Fair 19	Geneva	Shower 7	Majorca	Fair 13	Reykjavik	Snow 3
Abu Dhabi	Sun 22	Belgrade	Fair 15	Chicago	Cloudy 7	Gibraltar	Fair 18	Malta	Fair 18	Rio	Fair 31
Accra	Fair 33	Berlin	Cloudy 9	Cologne	Fair 10	Glasgow	Rain 12	Manchester	Cloudy 12	Rome	Cloudy 15
Algiers	Shower 17	Bermuda	Fair 22	Dakar	Sun 33	Hamburg	Fair 9	Manila	Fair 32	S. Frsco	Rain 14
Amsterdam	Shower 9	Bogota	Fair 20	Dallas	Sun 22	Helsinki	Rain 5	Melbourne	Fair 25	Seoul	Fair 11
Athens	Sun 18	Bombay	Sun 29	Delhi	Fair 24	Hong Kong	Cloudy 19	Mexico City	Fair 26	Singapore	Cloudy 33
Atlanta	Cloudy 11	Brussels	Shower 9	Dubai	Sun 26	Honolulu	Fair 27	Miami	Cloudy 24	Stockholm	Shower 6
B. Aires	Fair 27	Budapest	Cloudy 10	Dublin	Fair 13	Istanbul	Sun 14	Milan	Rain 11	Strasbourg	Cloudy 9
B.ham	Fair 12	C.hagen	Shower 7	Dubrovnik	Cloudy 17	Jakarta	Thunder 31	Montreal	Fair 2	Sydney	Fair 26
Bangkok	Fair 36	Cairo	Shower 19	Edinburgh	Rain 14	Jersey	Drzzl 12	Moscow	Cloudy 6	Tangier	Fair 18
Barcelona	Sun 17	Caracas	Fair 30	Faro	Sun 18	Johannesburg	Shower 24	Munich	Rain 6	Tel Aviv	Fair 21
						Karachi	Cloudy 28	Nairobi	Fair 28	Tokyo	Fair 10
						Kuwait	Sun 23	Naples	Rain 16	Toronto	Fair 3
						L. Angeles	Shower 17	Nassau	Fair 28	Vancouver	Cloudy 9
						Las Palmas	Sun 24	New York	Rain 7	Venice	Rain 12
						Lima	Cloudy 31	Nice	Thunder 18	Vienna	Cloudy 10
						Lisbon	Sun 16	Nicosia	Sun 20	Warsaw	Cloudy 8
						London	drizzle 12	Oslo	Cloudy 7	Washington	Rain 5
						Lux.bourg	Fair 7	Paris	Fair 10	Wellington	Rain 22
						Lyon	Rain 7	Perth	Sun 30	Winnipeg	Cloudy 4
						Madeira	Cloudy 18	Prague	Cloudy 8	Zurich	Cloudy 8

We wish you a pleasant flight.
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FINANCIAL TIMES
COMPANIES & MARKETS
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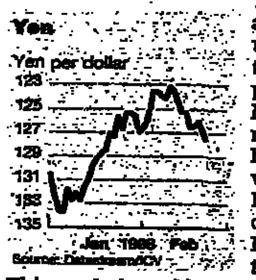
INSIDE

New figures may push yen lower



The yen could be in for a hard week after the unenthusiastic reaction to Japan's financial package. The currency has been helped in recent weeks by market hopes for the package, which was revealed on Friday, with promises of further measures. But the yen fell after the announcement. This week, it could suffer further if the latest industrial production figures continue to show an economy in the doldrums. Page 23

GLOBAL INVESTOR
Bond yields the key for equities bull run
Is the world on the verge of a shift to a new era of lower real bond yields? It might be one of the best hopes for those who believe the equity bull market has further to run. Nominal bond yields have fallen about as far as they can to reflect the new low-inflation era. With earnings growth set to fall in the face of the Asian crisis, stocks may need a valuation lift from bonds to make further progress. Page 22

INTERNATIONAL EQUITIES
A culture ready to multiply
With economic and monetary union will come pan-European investment, driven by three key factors. Emu will create a more liquid stock market, encouraging wider share ownership of previously domestic stocks. Second, many European privatisation programmes have a considerable way to go. Finally, Emu will spark regional competition, bringing consolidation that will drive equity issuance. Page 22

COMMODITIES
Silver experts focus on Indian reaction
Warren Buffett will be the name on everyone's lips at CPM Group's presentation of its 1998 survey of the precious metal's situation tomorrow. Berkshire Hathaway, the financial services and investment company run by Mr Buffett, controls more than 20 per cent of the world's estimated silver supply. But the reaction of consumers in India, the world's biggest market, to the recent price rise, will be crucial. Analysts say Indian consumers are being tempted into gold, which is trading at just below the important figure of $300 per troy ounce. Page 23

INTERNATIONAL BONDS
The rise and rise of the jumbo bond
The recent trend towards larger bond issues is likely to be confirmed this week, as several borrowers are expected to launch benchmark deals with amounts of $1bn or more. Analysts say jumbo issuers are taking advantage of cyclical factors in their favour, including the "flight to safety" prompted by the Asian crisis and the popularity of the dollar. Page 24

EMERGING MARKETS
Bulls go for bargain basement Ukraine
The Ukrainian stock market is full of bargains. On the basis of simple valuation comparisons, Ukrainian companies are possibly the cheapest in Europe. Last year, Ukraine's $4bn stock market boomed as foreign money poured in. However, in the wake of the Asian economic crisis, the tide of foreign investment has subsided. But with further privatisations planned for 1998, especially in the electricity sector, oil refining, and metals, some experts are quite bullish about the potential. Page 24

Companies in this issue

Discover card to go global

Morgan Stanley aims for worldwide payments network as base for launch

By George Graham and Clay Harris in London

Morgan Stanley Dean Witter Discover, the US financial services group, plans to create a global payments network as a base for launching its Discover credit card worldwide.

Philip Purcell, chairman and chief executive, said he believed payment cards were a global business, and he fully intended to be a global player. "I'll be very disappointed if Discover is not a global brand five years from now," he said.

The group announced on Friday it planned to drop Discover from its company name. It aims to use Morgan Stanley Dean Witter as a corporate name and as the sole brand for all its securities and asset management businesses. Mr Purcell said the bank would start by building a global network of merchants who would accept its cards, possibly through partnerships in each country. Only then would it begin to issue Discover cards in the rest of the world.

"In the US we did it simultaneously. That's way too complicated to do globally," he said.

Morgan Stanley Dean Witter has been pondering for some time how to take the Discover card into the international market. In the US, snappy marketing and the offer of a 1 cent rebate for every dollar spent have turned it into the single largest issuer of general purpose credit cards with 40m accounts, but elsewhere it is scarcely known. Its Novus network of merchants who will accept Discover and a number of other cards have grown rapidly over the last 10 years, but still ranks fourth in the US behind Visa, MasterCard and American Express.

Visa and MasterCard, however, were consortia whose names overshadowed the brands of their member banks, that actually issued the cards, Mr Purcell said. Even the largest card issuers, such as Citibank, found their customers thought of their cards simply as Visa cards, not Citi cards.

"The winners long term in the card business will be those who have branded cards ... The difficulty with the Visa system is you don't build your card's brand."

Mr Purcell said the global financial industry had been transformed by large mergers, including the $24bn combination last year of the Morgan Stanley investment bank with his Dean Witter, Discover retail broking and cards company, as well as the Swiss Bank Corporation-Union Bank of Switzerland merger.

He believed Morgan Stanley Dean Witter could already compete globally in investment banking and asset management. In its other two legs – cards and retail securities – it would eventually be able to compete on a global scale.

The decision to adopt the Morgan Stanley Dean Witter name for all securities and asset management activities reflects the success it has achieved, quicker than expected, in putting Dean Witter's retail broking strength together with Morgan Stanley's advisory and underwriting skills.

Mitsubishi to quit PC markets in Europe and Japan

By Christopher Price in London

Mitsubishi Electric, the Japanese consumer goods group, is quitting the European and Japanese personal computer markets in a move that signals the end of Apricot Computers, one of the oldest UK consumer computer brands.

Mitsubishi, which bought Apricot in 1990 for £39m ($65m), blamed the tough trading conditions in the PC market for its decision. Mitsubishi is to concentrate on the internet and business computers.

The news comes three weeks after AST, another Japanese-owned computer group, announced it was withdrawing from the European PC market.

Samsung, the Japanese electronics giant, which owns AST, also blamed the difficult trading environment. The average retail prices for PCs has fallen by 20 per cent in the past year.

Peter Horn, president of Mitsubishi Electric's PC division, said the rising costs of supporting PC sales with call centres and technical advice was another factor in the decision to withdraw, along with the rapid depreciation of the machines once assembled.

"We have to focus our business on those areas where we are going to get the best returns, and for us they are in the business market and the internet," he said.

Mr Horn said he did not believe the move out of consumer PC manufacture would lead to large job losses.

In the past year, the number of Mitsubishi's UK employees has fallen from 769 to 650 through natural wastage. Mitsubishi has offices in Birmingham and a factory in Scotland, which will now become the centre for its business computer production.

The company sold about 50,000 PCs last year – 40 per cent of them in Japan – giving it about 2 per cent of the consumer PC market in Japan and 2 per cent in Europe. Mitsubishi has a 3 per cent share of the business computer market.

Apricot's departure from the PC market closes another chapter on a successful UK company of the 1980s that later had to be rescued by a foreign company. Originally owned by ACT, a Birmingham-based software and services group, Apricot Computers was initially successful at a time when the PC market was fragmented.

However, the emergence of IBM as the dominant player by the end of the 1980s marked the beginning of Apricot's decline. Mitsubishi stepped in in 1990, while ACT went back into software and services.

Mitsubishi has been an internet service provider for three years and has 2,500 business and 25,000 private subscribers.

Symbios sale earns $775m for Hyundai

By John Burton in Seoul

Hyundai Electronics has sold Symbios Logic, its US non-memory chip subsidiary, to Adaptec in a $775m deal to help ease financial troubles at the South Korean semiconductor company.

Hyundai Electronics is the smallest and most indebted of Korea's three main chipmakers, which include Samsung Electronics and LG Semicon. It has already postponed a memory chip plant in Scotland because of problems raising overseas capital for the project.

Hyundai bought Symbios Logic in 1995 from AT&T for $340m to try to develop operations in non-memory chips, which enjoy a bigger market and have higher profit margins than its main business of memory chips.

A sharp fall in prices for memory chips in the past two years has forced Hyundai Electronics, which is expected to report losses for 1997, to retrench.

Symbios Logic was one of the most successful of recent Korean overseas ventures, posting a net profit of $69m on sales of $620m last year.

"The deal is significant because it is the first profitable unit that a leading Korean conglomerate has sold and it is a sign that Hyundai is willing to restructure," said Brian Hunsaker, an analyst with Dresdner Kleinwort Benson in Seoul.

Korean conglomerates, or chaebol, have been criticised by the government for reluctance in reducing their sprawling industrial empires despite the nation's debt problems.

Kim Yong-hwan, Hyundai Electronics president, said proceeds from the Symbios Logic sale would be used to finance projects in memory chip production, including completing a chip plant in Eugene, Oregon, Hyundai's first US production site.

UK group beats US rival with promise of quick cash

Bass to explain hotel chain deal

By John Willman in London

Bass, the UK brewing and leisure group, will today brief institutional shareholders and analysts on the agreement it signed late on Friday night to buy Inter-Continental Hotels and Resorts for $2.9bn from Japan's Saison group.

The acquisition gives Bass a substantial global upscale hotel chain to complement its mid-market Holiday Inns operation.

Bass shares fell 26½p to 960p on Friday as news of the impending deal leaked out, amid fears that it would overpay for the luxury hotels business.

The group, which is currently ungeared, was seen as desperate to make an acquisition after last year's setbacks in its attempts to buy Carlsberg-Tetley, the UK brewer, and William Hill, the betting shop chain.

"There will be some surprise at the price," said Mark Finnie of NatWest Securities, "but they were damned if they did and damned if they didn't. They have paid the requisite price to enter that end of the market."

Bass will emphasise that it was able to win over Marriott International, the US group, by promising to deliver cash quickly to the troubled Japanese stores group, which is selling several assets to cover subsidiaries' bad debts. It offered a $1.395bn cash payment, repayment of $450m debt and the assumption of net debt of $1.044bn. It also agreed to license Saison to operate the Inter-Continental and Forum hotels in Japan where Bass has no operating arm.

Big move: Sir Ian Prosser, Bass chairman and chief executive

In return, Bass acquires 187 hotels with 65,000 rooms in 69 countries. Of these, 117 are Inter-Continental hotels and 20 are the mid-market Forum brand.

"The deal leaves Bass in the best position of any hotel group with international ambitions," said Paul Slattery of Dresdner Kleinwort Benson.

"It already has a dominant position in the mid-market range with Holiday Inns. This acquisition makes it one of three groups with critical mass in the upscale end and very much at the top of the league."

The group made $179m in earnings before interest, tax, depreciation and amortisation in 1997.

Bass said it expected the deal to involve one-off costs of $50m, but to generate $40m annually from cost savings in reservations, purchasing, sales and marketing.

Completion of the agreement, which is dependent on regulatory approval in the US and Europe, is expected by March 31.

It will leave Bass with interest cover of around five times.

PW drops plan to take Origin stake

By Gordon Cramb in Amsterdam

Price Waterhouse has abandoned a plan to take a significant stake in Origin, a computer services subsidiary of Philips, the Dutch electronics group.

The accountancy firm, which is pursuing a merger with rival Coopers & Lybrand, last October disclosed that it was in talks to secure an unspecified minority holding. Origin, with annual revenues approaching Fl 3bn ($1.5bn), is 88.8 per cent owned by Philips.

Price Waterhouse saw Origin, which operates in 31 countries, as a way to expand its ability to meet its clients' information technology needs.

But late on Friday it and Philips said they could not reach an agreement. This deals a blow to PW's ambitions to create a broad-based professional services group. It has been seeking to widen its expertise beyond traditional definitions of accountancy and consulting. Origin and PW are to continue their year-old strategic alliance.

Philips said Origin showed a modest profit last year after substantial losses in 1997 and management upheavals. Sales growth was some 21 per cent at the Eindhoven-based IT services company.

On Friday Philips also announced the appointment of Origin's fourth chief executive within the space of two years. Robert Pickering is a former PW executive who was until last December president of BSG Alliance/IT, a Texas based computer services company which has a joint venture with Origin in the US.

Philips has repeatedly stressed its commitment to Origin, treating it differently from other unprofitable businesses it has sold or closed in the past 18 months. At the same time it has been keen to achieve more independence for Origin, which depends on its parent for almost half its income.

The continuing tie-up with PW involves providing third-party software, systems integration and similar business services to help link it to its customers.

PW merger cleared, Page 21

Goldman Sachs Asset Management to target Europe

By Jane Martinson, Investment Correspondent

Goldman Sachs Asset Management is to launch its first marketing exercise in Europe in an effort to extend its role in the highly competitive UK pension fund market and benefit from poor performance from its larger rivals.

At the same time GSAM, part of the US investment bank, has appointed Nigel O'Sullivan, a pension fund consultant, to the new post of head of its European pension and insurance strategy group.

The appointment is a significant one for GSAM, which entered the UK market less than two years ago with its purchase of CINMan, the pension fund manager for the coal industry.

GSAM's decision to boost its UK profile in such a relatively short time partly reflects its belief that the domestic industry is ripe for a shake-up. The UK's leading fund managers – Mercury Asset Management, Schroders, PDFM, Gartmore and Morgan Grenfell – have suffered either performance or management problems in the past two years.

David Blood, managing director of GSAM in Europe, said: "We would have waited, but the opportunity is just too good. We want people to know that Goldman Sachs is here."

GSAM, which manages $40bn in Europe out of a worldwide total of $140bn, is also keen to capitalise on a recent shift among pension fund consultants away from the traditional multi-asset management and towards specialist funds.

GSAM manages about $32bn for UK clients, with most of that coming from the coal funds. GSAM has already started to contact large corporate clients of its investment banking parent. "We want to leverage the Goldman Sachs brand name," Mr Blood said.

Pension fund consultants agreed that the biggest asset of the group in lieu of long-term performance figures was its brand name. "Anybody with any nous in the financial world has heard of Goldman Sachs," said one.

GSAM, which intends to launch a range of advertisements for the institutional business in the coming months, said it intended to increase its staff by 75 to 275 next year. Most of these appointments would be in the marketing department. However, the group has failed to find a UK head of marketing.

Mr O'Sullivan previously worked with Bacon & Woodrow, one of the UK's leading pension fund consultants. He had acquired a reputation for recommending the sacking of underperforming managers.

Mark Griffin is to leave GSAM's strategy group to move to the US, where he will focus on insurance groups.

GOING for GROWTH

What have 8 IT companies, 9 leisure companies and 6 telecommunication companies got in common? Last year, they and 153 other companies listed on the London Stock Exchange to help their future growth by raising money, boosting trading in their shares and enhancing their public profile. Together they raised a total of £1,376 million.

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Overseas in threat of legal action

By Jean Eaglesham

Overseas Investment Trust shareholders are threatening legal action unless the board publishes reconstruction proposals by Wednesday.

The threat reflects growing frustration with the perceived reluctance of Morgan Grenfell Trust managers, which manages the trust, to expedite its break-up. "The longer it all takes, the longer they manage the [£185m] assets and so keep their fee – it is common behaviour," said one shareholder.

Shareholders believe they have found a legal lever to force the trust's board to act. A circular issued to them in October 1981, when the UK vehicle was called the North Atlantic Securities Corporation, required the board to issue proposals to unitise or liquidate the trust within three months of losing a continuation vote.

Overseas lost such a vote on December 19, shortly after a predatory US firm of arbitrageurs, Elliott Associates, bought a 15 per cent stake. If the three months' clause still applies, the trust needs to hold an extraordinary meeting to vote on wind-up proposals by March 19, at the latest. This means the board must issue proposals this week to give the legal required minimum 21 days' notice.

But Tony Fabrizi of HSBC James Capel, the broker acting for Overseas, said there was "no legal requirement in any normal reconstruction" to put proposals forward by a certain date.

He added that it was "a matter of legal opinion" whether such a requirement existed in this case.

Mr Fabrizi denied that the trust and its manager had been slow to act after being defeated in the continuation vote: "The board wish to consult very widely with shareholders, right down to the smallest private shareholder, and this has been an ongoing process for some time."

But analysts cast doubts on this justification. "It is noticeable that the board has taken longer to develop proposals than Kleinwort Overseas Investment Trust, which lost a continuation vote on the same day [and has already issued reconstruction proposals]," said Andrew Bell of BZW, the broker.

As well as coming under increasing pressure to act quickly, Overseas may also be forced to follow KOIT's lead and offer shareholders the option of a full cash exit. After it lost the continuation vote, the board said its reconstruction proposals "are likely to involve a form of cash exit".

United likely to finalise sale of division

By Christopher Adams

United News & Media, the media conglomerate headed by Lord Hollick, is in the final stages of talks to sell its northern regional newspaper division to Candover, the venture capital group.

Candover Investments, one of two venture capital groups in the running to buy the business, which includes the Yorkshire Post, said yesterday it was carrying out due diligence and hoped to agree a final offer shortly. A sale could raise about £350m.

United is not thought to be talking exclusively with Candover, however. CVC Capital, the other venture capital group keen to back a management buy-out, could not be reached for comment.

The interest comes despite concerns that United is attempting to tie buyers of the northern papers into a long-term printing contract, at its press in Broughton, near Preston, Lancashire.

Candover owns no publishing operations at present. It has raised £850m from investors in its latest equity fund.

Other groups including Newsquest Media Group and Trinity International Holdings had also been invited to submit second bids. But Trinity, which was bidding £330m-£350m, is believed to have pulled out.

A successful sale of the northern papers would complete the disposal by United of its UK regional newspapers. United Provincial Newspapers is the fourth largest regional group, with 7.3 per cent of total circulation.

Last week, the group sold its southern regional publications to Southnews, the local newspaper group, for £47.5m. Dresdner Kleinwort Benson, which is advising United, has also been seeking buyers for the Spanish newspaper arm.

Row erupts as Ewart chairman opts for Dunloe

By Jonathan Guthrie

A furious row has erupted between Brian O'Connor, non-executive chairman of Ewart, the Belfast property company, and other board members over his decision to accept the lower of two rival offers for the business.

The stock exchange will today publish an announcement by Mr O'Connor that he "intends to accept" a 75p-a-share offer for Ewart from Dunloe House, the Dublin property company, in respect of his 16 per cent shareholding. In the statement Mr O'Connor says: "The uncertainty created by the bid ... should be brought to an end. My action is designed to achieve this and create certainty for all shareholders."

But Barry Gilligan, chief executive of Ewart, said he was "very surprised" by the move. Mr O'Connor had backed the board's decision on Thursday to reject Dunloe's offer, increased from 67p a share last Thursday, which values Ewart at £23.4m.

Mr Gilligan said Ewart had by then received an "indicative offer" at 79p a share from another bidder which the board had decided to accept, even though it was below Ewart's net asset value of 81p a share.

The other directors learned of Mr O'Connor's decision on Friday morning. There was an angry exchange of words at 3pm at a board meeting conducted by telephone by Mr O'Connor, who lives in Hong Kong where he has business interests.

"I am very concerned about the actions of the chairman and the possible damage they have done to shareholders' interests," said Mr Gilligan, who added that the identity of the new bidder was likely to be revealed next week. He said Ewart would complain to the Takeover Panel about Mr O'Connor, and that it was considering taking legal action against him.

Mr O'Connor was travelling yesterday and could not be reached for comment.

Following lengthy discussions with the Takeover Panel, Mr O'Connor agreed he would not sell his Ewart shares before Tuesday of next week, and only after that if total acceptances give Dunloe more than 50 per cent of Ewart. Dunloe's chairman, Noel Smyth, already has a 26 per cent stake in Ewart, of which he is a non-executive director.

Lydia van der Meer

Seeking acquisitions: Stuart Wallis (right) with David Gilbertson, chief executive

LLP heads for flotation

By Christopher Adams

LLP, the business information group and publisher of Lloyd's List, plans to float on the London Stock Exchange in the spring.

Stuart Wallis, chairman, said some of the cash raised from institutional investors would go towards funding future acquisitions. LLP, which has some 300 publications, is highly geared and a substantial part of the proceeds would be used to pay off long-term debt.

The company, which announced its intention to seek a listing last year, was sold to a management team backed by NatWest and 3i, for £82.5m by Lloyd's of London, in late 1995. It had been formed as a stand-alone subsidiary of the corporation of Lloyd's in 1973 and took over the activities of the insurance market's internal information-gathering and publishing departments.

Venture capitalists own 75 per cent of the group and management 25 per cent.

The flotation, which is dependent on shareholder approval and stock market conditions, would place more than half the business with institutional investors.

Pre-tax profits were £10.3m last year on an increase in turnover from £40m to £48.4m. "This company has grown very fast, both organically and by acquisition. There are some interesting opportunities for business and it will be good to have the cash available for development," said Mr Wallis.

Big three Czech banks set for sell-off

By Robert Anderson in Prague

The Czech government has appointed advisers for the sale of its remaining stakes in three of the country's biggest banks, finally beginning the process of opening the top tier of the country's important banking sector to foreign investment.

The finance ministry said that Goldman Sachs would advise on the privatisation of Komercni Banka, central Europe's largest bank by assets; Merrill Lynch would advise on the sale of Ceska Sporitelna, the main retail bank; and Schroders would advise on the sale of Ceskoslovenska Obchodni Banka (CSOB), the foreign trade bank. Twenty-six investment banks had applied to be advisers and five, including JP Morgan and Lehman Brothers, were shortlisted.

The finance ministry said that it wanted to submit the advisers' analyses to the caretaker government of Josef Tosovsky by May. However, the government has said that it will only prepare the privatisations, leaving their implementation to the government formed after the elections scheduled for June.

The previous government of Valcav Klaus had proposed selling the whole of the state's 66 per cent stake in CSOB to one strategic investor and at least 34 per cent of the state's 49 per cent stake in Komercni Banka and 48 per cent stake in Ceska Sporitelna to single investors. However, it is not clear whether this strategy will be implemented should the Social Democrats, who are leading in opinion polls, form the next government.

The party has yet to announce a clear policy on banking privatisation but Ivo Svoboda, the head of the party's finance committee and a potential future finance minister, has said he supports the privatisation of the banks by 2000 and does not want the state to keep a stake. "The big three banks might be in private hands after two years," he said. "But we want it on a correct commercial basis".

Estimated consolidated net income 1997: FRF 2,055 million

The Board of Directors of Usinor were informed at a meeting held on Tuesday, February 17, chaired by Francis Mer, of the estimated consolidated net income for the 1997 financial year.

Consolidated net income was FRF 2,055 million compared to FRF 1,489 million in 1996.

In FRF billions	1997(*)	1996
Sales	72.0	71.1
Operating income	3.6	2.5
Income from operations before tax	2.5	2.1
Net income	2.1	1.5
Net cash provided by operations	5.8	10.0
Capital expenditures	4.1	3.9
Shareholders' equity (including minority interest)	28.2	29.7
Net debt	5.8	6.5
Net income per share (FRF)	8.45	6.12

(*) Unaudited - Vallourec consolidated until June 30, 1997

Consolidated sales for 1997 were FRF 72,001 million, increasing by 6.7% versus 1996 on a comparable basis.

Sales were derived from Flat Carbon Steels (Sollac) 52.5%, Stainless Steel and Alloys (Ugine, J&L, Imphy, ...) 23.9%, and Specialty Steels (Aster: Unimétal, Ascométal, CLI, IMS...) 20%, the balance of other activities (Vallourec over the first six months, Forcast, ...) and elimination of sales between activities representing 3.6%.

In 1997, sales in the three core activities evolved as follows: Flat Carbon Steels at FRF 37,841 million, or +7.8% (volume effect +8.3%, price effect -0.5%), Stainless Steel and Alloys at FRF 17,189 million, or 2.8% (volume effect +4.9%, price effect -2.1%), Specialty Steels at FRF 14,401 million or +4.7% (volume effect +9.7%, price effect - 5%).

In 1997, 32% of the sales were made in France, 47% in the other countries of Europe and 21% in the rest of the world. The United States represented 11% of total sales and Asia 3.5%.

Operating income was FRF 3,580 million, or 5% of sales (4.5% in the first half of the year and 5.5% in the second) compared to FRF 2,482 million, or 3.5% of sales for the 1996 financial year. Flat Carbon Steels constituted 6.9%, Stainless Steel and Alloys 3% and Specialty Steels 1.6%.

Net income reflected in particular a restructuring provision of FRF 300 million related principally to the closure of the Longwy wire rod mill and the rationalization of the J&L industrial sites in the United States.

Net cash provided by operations amounted to FRF 5,845 million versus FRF 9,973 million in 1996. Given the recovery in activity, this variation is explained principally by the increase of working capital requirements whereas in 1996 a deflated economy contributed to a significant decrease. After capital expenditures of FRF 4,125 million and financial investments net of divestures, the free cash flow was FRF 2,965 million.

Net debt at December 31, 1997 was FRF 5,835 million. Following the deconsolidation of Vallourec, the debt/equity ratio remained the same as that at the end of 1996 (0.21 compared to 0.22). This ratio is likely to increase significantly in the first quarter of 1998 taking into account the acquisition by Aster (Specialty Steels) of 100% of the Belgian company Fafer for approximately FRF 1.6 billion and the purchase by Usinor of minority interests in Sollac for approximately FRF 1.1 billion.

The asset turnover ratio continued to improve, from 1.55 at the end of 1996 to 1.67 at December 31, 1997, reflecting the Group's policy which emphasises shareholder value in order to improve the return on its capital employed.

Prospects

The economy continues to be sustained on the domestic market of the European Union, in particular in the sectors constituting important markets for Usinor, such as the automobile and mechanical engineering industries. Inventories are at normal levels and the Company believes that the consumption of steel should continue to improve at least until summer, with the help of a noted resurgence in investment. This evolution should contribute, in a relatively stable dollar environment, to the firmness of prices, flat stainless steel (17% of the sales of the Group) continuing as in 1997 to suffer from global over-capacity.

Annual contracts, which cover 45% of the Group's sales, were negotiated under good conditions in almost all sectors. The order books are currently well filled and the plants should operate at full capacity over the first six months of 1998.

Net dividend: FRF 3.30

The Board will propose to the General Assembly, which is to meet on Tuesday, June 9, 1998, a net dividend of FRF 3.30 per share. Payment of such dividend is expected to occur on Wednesday, July 1, 1998. This distribution represents 39% of the net profits.

USINOR

Operating income +44%

Net income +38%

Dividend per share +10%

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NEW DIGEST

Three Montanaro directors resign

Three of the four directors of Montanaro UK Smaller Companies Investment Trust have resigned after an internal disciplinary investigation. The resignations could trigger a takeover bid for Montanaro Investment Managers, the boutique fund management company which runs the trust.

Montanaro refused to reveal the reasons for the resignations or the identities of the directors. "We can confirm that two of the directors were suspended pending a disciplinary investigation and those directors and another director have resigned," it said. "We are not prepared to comment further but we are concerned that a private internal matter has become public and are considering legal action [as a result]".

The affair will raise questions over the future of Montanaro Investment Managers, a small independently owned company set up in 1995 by Charles Montanaro. Mr Montanaro is a fund manager with a good reputation in the UK smaller company sector. But the only funds in his stable are the investment trust, which has about £70m of assets, and an unquoted limited partnership.

Jean Eaglesham

Banks deny bid speculation

Barclays yesterday refused to comment on weekend press speculation that it was planning to bid for Standard Chartered, the UK-based international bank. Standard Chartered denied it was in takeover discussions with anyone. With a stock market value of £29bn, Barclays is nearly four times the size of Standard Chartered, whose share price has reflected the volatility of Asian markets in recent months.

A bid for Standard Chartered would not pose any domestic competition problems like those foreseen in Barclays' ambitions – now put on hold – to buy the rival National Westminster Bank. They would have commanding combined market shares, however, in some African countries. Both banks have also pulled back in investment banking. Always more regionally based than Barclays, Standard Chartered started its retrenchment two years earlier, in 1995.

Hong Kong and the Asia Pacific region accounted for nearly two-thirds of Standard Chartered's trading profits of £818m in 1996. Its 1997 results are due to be announced on Wednesday. See Lex

Clay Harris

Packaging alliance formed

MY Holdings, the UK paperboard and plastics packaging group, is set to announce today the formation of a European alliance which it hopes will help its members to win more business from multinational pharmaceutical groups.

The move has been prompted by an increasing trend among large packaging users, notably pharmaceutical and consumer goods groups, to rationalise their supply bases and find pan-European suppliers. This has presented problems particularly for small and medium-sized companies producing in just one country.

MY, based in Surrey, is teaming up with partners in France, Germany and Italy, to form an alliance called Pharmapact. All four specialise in pharmaceutical packaging. They will continue to work as individual entities, but will pool some marketing and sales, providing customers with a single point of contact for Europe-wide negotiations and common commercial terms and specifications.

Together the companies – of which MY is the largest with turnover of about £100m a year – produce at 15 sites in western Europe.

Virginia Marsh

Texas 'offer' for Energy

Texas Utilities, the Dallas energy company, is expected to make a bid for Energy Group of the UK within the next two weeks. The offer will be at a "significant premium" to the bid of 765p a share from PacifiCorp, another US utility, which values Energy Group at £4.05bn.

Texas is keen for the board of Energy Group to back its bid. With this aim, it is believed to have promised John Devaney, chief executive, and Eric Anstee, finance director, important roles within the company after the takeover. "Within limits Texas lets subsidiaries run themselves," an official said.

The disadvantage facing Texas is that it lacks regulatory clearance. PacifiCorp overcame this obstacle last week when the Federal Trade Commission of the US approved its bid providing it sold two US mines owned by Energy Group if successful.

Jonathan Guthrie

Demasz to raise $80m

A 38 per cent stake in the south Hungarian electricity distribution company, Demasz, is expected to be made available in an international public offering this spring, raising about $80m (£48.8m).

Demasz, which is 54 per cent owned by Electricité de France International, is to request listings on the Budapest and Luxembourg Stock Exchanges. EDFI will retain a stake of just over 50 per cent, with the majority of the shares on offer provided by Hungarian based brokerage OTP, which holds a 24 per cent stake purchased from local councils.

Kester Eddy in Budapest

Name change for Générale

Générale des Eaux, the French construction, communication and environmental services group, is poised to change its name. Jean-Marie Messier, chairman, made the disclosure in this month's letter to shareholders. He said the current name gave an incomplete and sometimes inexact picture of the group. The new name, to be proposed at the general shareholders' meeting in June, would reflect the "richness and coherence" of group activities.

The disclosure came as the Paris appeals court ruled that the company should not be forced to make a full bid for Havas, the media group, in which it has a substantial minority stake. See Lex

David Owen in Paris

Videologic's graphics chip

Videologic, the UK-based graphics technology group, will today launch its second-generation PowerVR 3D graphics chip aimed at the arcade systems, personal computer and set-top box markets. The company's PowerVR technology, developed in conjunction with NEC, the Japanese electronics group, is already the market leader in the PC 3D graphics market with a 36 per cent market share, according to Jon Peddie Associates, an independent research firm. Its existing customers include Compaq, the world's largest computer marker, Gateway, NEC and Matrox, the market leader in the add-in graphics card market.

Paul Taylor

Pennant flies to Aim

The Eurofighter project is fuelling expansion plans for a defence training simulator company, which will today announce a placing and admission to the London Alternative Investment Market, to raise £2m. Pennant International intends to use the cash to fund acquisitions, new product development, and to expand its existing Cheltenham-based operation.

The placing by Rowan Dartington & Co early next month is expected to value the company at £8m-£10m.

Pennant, formed in 1958 and acquired in 1991 by Pennant International Group, produces hardware and software for simulation equipment used in training for aircraft, ships and power stations.

Turnover has almost doubled in the last two years to £4.4m in the year to December 1997, with operating profits at £696,000.

Juliette Jowit

هكذا من الأصل

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BANCO BHIF Banco Santiago BENCKISER BRAHMA CABLE & WIRELESS CADILLAC FAIRVIEW

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SG to buy US investment bank

By Tracy Corrigan in New York

Société Générale, the French bank, has agreed to buy Cowen & Company, the US investment banking partnership, for $540m in a cash transaction. Cowen specialises in equities and research in growth sectors such as technology, healthcare, communications and media. The new company will be called SG Cowen Securities.

"Cowen will serve as a cornerstone in our efforts to continue to build and enhance our universal banking capabilities for our customers and clients in the US and global marketplaces," said Jean Huet, chief executive officer of SG Americas.

SG will pay the partners of Cowen 60 per cent of the purchase price on closing and the rest in three instalments over three years. SG has established a $75m retention pool to be paid over three years to "key Cowen employees".

Joseph Cohen, chief executive officer of Cowen, will serve as chairman of SG Cowen and Curtis Welling, currently chief executive officer of Société Générale Securities, will be president and chief executive officer. Both will report to Mr Huet.

Mr Cohen said he had decided to sell because "strategically, the dynamic of our business changed when Alex Brown decided to combine with Bankers Trust" last year.

Subsequently, Robertson Stephens and other small US investment banks were also bought out, as part of the consolidation of the financial services industry. Mr Cohen said growing companies which in the past had graduated from Cowen to larger investment banks would be easier to retain because of SG's ability to offer a full range of financial products.

Mr Welling said Cowen was a perfect fit for SG's US securities business. "The missing component was equity capability and high quality of research," he said. The group will now be able to offer "highly integrated value-added products to a focused group of industries".

The company said that as a result of tax benefits and time value savings, the actual present value cost to SG, including the purchase price and the retention pool, is about $468m. As part of the transaction, Société Générale's existing securities company, currently regulated by the Federal Reserve Board, will be converted into a securities company regulated by the Securities and Exchange Commission under Section 20 of the Glass Steagall Act.

SG already has an established commercial banking business in the US. Mr Huet said that SG has a $50bn loan book in the US and "85 per cent of the business is with corporate America".

Dutch chemicals companies in talks

By Gordon Cramb in Amsterdam

DSM and Gist-Brocades, two of the biggest Dutch chemicals companies, are "holding talks to explore possible forms of co-operation", fuelling speculation of a Fl 8.2bn ($4bn) merger.

Shares in both companies were suspended for part of Friday on the Amsterdam stock exchange after rising strongly. They jumped further when trading resumed. Gist-Brocades closed 10.3 per cent higher at Fl 60, while DSM was up 3 per cent, at Fl 200.80.

DSM, with sales of nearly Fl 12bn, is by some way the bigger of the two. Petrochemicals make up nearly half its business, though it is also the world market leader in melamine. Gist-Brocades, where revenues are above Fl 2bn, has pharmaceuticals and bakery ingredients as its two main divisions.

Simon de Bree, DSM chairman, told analysts last autumn that a main element of its growth strategy was a "shift towards businesses which are further downstream in the industry chain and less sensitive to the chemical business cycle". He identified fine chemicals, along with plastics and resins, as an area to target.

Ruud Selman, a fellow board member, is on record as saying that joining forces with Gist-Brocades would be a "highly interesting combination of toolboxes".

According to Peter Blair, analyst with Salomon Brothers in London, "The most likely is that DSM will buy Gist-Brocades – they can afford it". He added: "DSM is the most cyclical of the larger chemical companies in Europe, and the share price has been panned because of it."

Safety-Kleen set to decide on bids

By Scott Morrison in Toronto and Nikki Tait in Chicago

The $2bn battle for control of Safety-Kleen, the US hazardous waste recycler, will come to a head on Wednesday, when shareholders are asked to vote on a now fully-financed offer from Philip Services, the Canadian scrap services and waste management group.

Philip announced on Friday it had finally secured financing from Canadian Imperial Bank of Commerce, allowing it to fund its $200m contribution to the offer. Philip's two investment banking partners, Blackstone Management and Apollo Management, will each put up similar amounts.

The remaining financing for the bid will come from a $1.5bn credit facility, underwritten by Chase Manhattan and CIBC. The bidding consortium said this facility was also fully syndicated by the end of last week.

Two weeks ago, the Philip offer hit a hiatus, when the Canadian group told Safety-Kleen that it had not yet assured financing for the offer.

As Philip talked to its bankers, a shareholder vote on its bid – which is worth $27 per Safety-Kleen share in cash and has been consistently preferred by Safety-Kleen directors to a rival cash and shares bid from Canada's Laidlaw group – was moved from February 11 to February 25. Philip needs support from holders of two-thirds of Safety-Kleen's shares to be successful.

However, Laidlaw Environmental says it will continue talks with Safety-Kleen shareholders to convince them of the merits its rival offer, currently worth $30 a share. Ken Winger, Laidlaw Environmental chief executive, refused to rule out the possibility that his company might raise its offer or increase the cash component of its bid.

The company said last Monday that Safety-Kleen shareholders had tendered more than 50 per cent of their stock in favour the Laidlaw bid. The shareholders, however, can withdraw their stock prior to Wednesday's vote.

Dresdner Bank ahead

By Andrew Fisher in Frankfurt

Dresdner Bank, Germany's second biggest bank, raised pre-tax profits by nearly 20 per cent last year to DM3.3bn ($1.81bn) and announced risk provisions for Asia lower than those of its main competitors.

It has set aside DM600m to cover loan risks in Indonesia, South Korea and Thailand, where its total exposure is DM4.1bn. Dresdner said no provisions were necessary for Malaysia, where its exposure is DM1.2bn.

Deutsche Bank, the biggest German bank, is making extra provisions of DM1.4bn to cover potential loan risks in those four countries.

Commerzbank has announced nearly DM1bn of provisions to cover "latent Asian risks".

Dresdner's strong performance was in line with positive comments recently by Bernhard Walter, who became chairman last month after the bank had been hit by a series of resignations and tax scandals.

Dresdner said commission income and own-account trading profits had risen sharply, while net interest income had shown a marked

Bernhard Walter, chairman: positive comments

improvement through expanded loan volume. Costs had risen by more than 10 per cent as a result of structural changes and technology investments, but profit growth was much steeper.

Growth in operating profits, of 10 per cent to DM3.1bn, was held back by the comparison with a year in which they benefited considerably from capital gains on securities sold from the liquidity portfolio.

Dresdner sold its minority stake in the Degussa metals and chemicals company to Veba in 1997, but the near DM600m profit was not all booked to operating income; DM250m of this is being transferred to reserves.

The dividend is being increased from DM1.45 to DM1.55 a share, though the 1996 payment also included an anniversary bonus of 10 pfennigs.

● Deutsche Bank, Germany's biggest bank, will present its accounts in euros from 1999, when the single currency is due to be introduced. The euro figures will be for the first quarter of next year. Other banks are expected to follow suit.

Among industrial companies, Siemens has already said it will present euro accounts.

Deutsche will also convert its shares into non-par value units from DM5 nominal units to ease the transition to the euro.

Dresdner Bank was the first bank to announce such a move a few weeks ago and Commerzbank said it would do the same.

Deutsche also intends to denominate its capital in euros from January.

These moves are dependent on euro-related legislation completing its passage through parliament. Shareholders also have to approve the changes in share capital.

INTERNATIONAL NEWS DIGEST

Scania edges up to SKr2.75bn

Scania, the Swedish truck manufacturer, has reported flat full-year profits after enduring intense price competition in Europe and rising production costs associated with its latest model. In spite of increased volumes and strong order bookings, Scania saw pre-tax profits rise only marginally from SKr2.71bn to SKr2.75bn ($340m) on improved sales last year of SKr39.7bn, up from SKr33.7bn. Operating income fell from SKr3.06bn to SKr3.05bn after increased warranty and distributions costs on its new four-series truck, which added SKr400m to group operating expenses.

Leif Ostling, Scania chief executive, said Scania was in discussions with Kia, its South Korean distribution partner, about future marketing arrangements in Asia, but he played down recent speculation that it was considering acquiring the Korean group's Asian Motors business.

The operating margin for the year fell from 9.1 to 7.7 per cent. Earnings per share were unchanged at SKr9.90 and a maintained dividend of SKr5.50 is proposed.

Tim Burt, Stockholm

■ INSURANCE

Skandia shares dip despite advance

Shares in Skandia fell 3.8 per cent on Friday after Sweden's largest insurer said growth in its unit-linked assurance business had slowed during the fourth quarter. Announcing more than doubled full-year profits, Skandia said growth of its unit-linked funds slowed in the fourth quarter because of stock market turbulence. Written premiums remained unchanged, however.

Growth in Skandia's unit-linked funds slipped to 7 per cent in the final quarter, compared with a full-year rate of 56 per cent. The shares, which have more than doubled in value in the past year, fell SKr17 to SKr432. Pre-tax profits for the full year jumped from SKr2.4bn to SKr6bn ($742m), lifting earnings per share from SKr11 to SKr33. Lars-Eric Petersson, chief executive, said all Skandia's core businesses improved earnings. *Greg McIvor, Stockholm*

■ SPAIN

Bid gives boost to banks' shares

Strong investor support for Banco Santander's surprise Pta690bn ($4.1bn) bid for outright control of its subsidiary Banco Español de Crédito (Banesto) drove the share price of both institutions to unprecedented highs on Friday.

Santander shares rose 9.8 per cent to close at Pta6,940, against a general index rise of 1.48 per cent. Shares in Banesto, which will be exchanged on the basis of 3.2 for 1 new Santander share in next month's public offer for Banesto, rose 23.7 per cent to close at Pta2,140.

● Merrill Lynch, the US bank, has been appointed global co-ordinator for the privatisation of Tabacalera, together with the domestic banks Argentaria, Banco Bilbao Vizcaya and Banco Central Hispano. The sale of the government's 52 per cent stake in the dominant tobacco group, is expected to raise Pta254bn ($1.65bn) and is provisionally scheduled for late April. *Tom Burns, Madrid*

■ POLISH TELECOMS SELL-OFF

CSFB drops protest over mandate

A consortium led by Credit Suisse First Boston, which includes Deutsche Morgan Grenfell and Poland's PKO BP savings bank, has decided not to pursue its protest against a controversial Polish government decision to grant the advisory mandate for a public offer of 20 per cent of Telekomunikacja Polska SA, the state-owned telecoms operator to Shroders.

The CSFB group was shortlisted for the sale, which could be worth as much as $2bn. It saw its protest rejected by the government last week. Later the group, which could have chosen to go to arbitration, said: "We have decided that the matter is closed". The government has said it rejected the offer because CSFB and its partners failed to fulfil the formal terms of the tender.

Christopher Bobinski, Warsaw

■ UK INSURANCE

GRE plans share buy-back

Guardian Royal Exchange, the UK composite insurance group, is set to return surplus capital to investors with a share buy-back scheme that could be announced with full-year results this week. Many UK institutional investors have urged insurers not to use their bulging resources to increase competition by cutting prices to achieve more business. Guardian, which together with Commercial Union begins the composite insurers' reporting season on Wednesday, may opt to buy back up to 5 per cent of its issued share capital, as Royal & Sun Alliance did last year. *Christopher Adams*

NOKIA

(Public limited liability company incorporated in the Repulic of Finland)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to the shareholders of Nokia Corporation (the "Company") of the Annual General Meeting ("AGM") to be held on Tuesday, 24th March, 1998 at 3.00 p.m. at The Helsinki Fair Centre, Congress Wing, Congress Hall C1, Rautatielaisenkatu 3, Helsinki, Finland.

Agenda

1. The matters specified in Article 12 of the Articles of Association:
a) review of the annual accounts, comprising the Profit and Loss Account, the Balance Sheet, the Annual Report of the Board of Directors and the Consolidated Accounts;
b) review of the Auditors' Report;
c) approval of the Profit and Loss Account, the Balance Sheet, the Group Profit and Loss Account and the Group Balance Sheet;
d) decision on any measures to which the profit or loss shown in the approved Balance Sheet or Group Balance Sheet may give rise;
e) decision on discharging the members of the Board of Directors and the President from liability;
f) decision on the number of members to serve on the Board of Directors;
g) decision on the remuneration to be paid to the members of the Board of Directors and to the auditors;
h) appointment of members of the Board of Directors; and
i) appointment of the auditors and the deputy auditors.

2. A proposal by the Board of Directors to amend Articles 2, 4, 6 and 12 of the Articles of Association essentially to the effect that:
a) the nominal value of shares be split in half from 5 Finnish markkas to 2,50 Finnish markkas and a change of the minimum and maximum capital as a consequence of the split;
b) the provision on the right of the Company to redeem its own shares be deleted pursuant to a change of law;
c) the term of the Board members be shortened to one year;
d) the provision concerning the Executive Committee be deleted;
e) the Chairman of the Board of Directors be authorised to sign for the Company alone.

3. A proposal by the Board of Directors to increase the capital of Nokia Corporation Foundation by FM10 million to be used for the purpose of the Foundation to support the scientific development of the data and telecommunications technology and to promote the instruction in this field in Finland.

The Accounts and Annual Report

The accounts for the 1997 financial year and details of the proposals mentioned in paragraphs 2 and 3 above will be on display from 16th March, 1998 at the Head Office of the Company at Nokia House, Keilalahdentie 4, Espoo, Finland, and the offices of Enskilda, Skandinaviska Enskilda Banken at 2 Cannon Street, London EC4M 6XX. Copies of the documents and the full annual report in Finnish, Swedish and English will be available at the Head Office of the Company and will be sent to Shareholders upon request to the Registrar. Such copies will also be available on request from Enskilda from 16th March, 1998. The annual report is also available at the internet page of Nokia (http://www.nokia.com) from said date.

Right to Vote

Shareholders who are registered in the register of the Shareholders held by Finnish Central Securities Depositary Ltd not later than 18th March 1998, and who wish to exercise their voting rights at the AGM must give notice to the Company of their intention to attend not later than 20th March, 1998 at 4.00 p.m. Notice may be given to the Shareholders' Registrar by telephone during office hours (358) 9 1807 390, or in writing to the Shareholders' Registrar, Nokia Corporation, P.O. Box 226, FIN-00045, Espoo, Finland. Written notice should arrive not later than 20th March, 1998.

Payment of Dividend

The record date for the dividend for 1997 is 27th March, 1998. The Board will propose to the AGM a dividend of FM7.50 and that the dividend be paid after the expiry of the settlement period on or about 3rd April, 1998.

Composition of the Board of Directors

Notwithstanding their remaining term the present members of the Board of Directors have announced that they will leave their posts to be filled at the AGM on 24th March 1998 if the proposal to shorten the term of the Board members to one year is approved by the AGM.

Certain shareholders representing more than 20 per cent of votes have informed the Company that they will propose that the number of members to serve on the Board of Directors be nine and that Ms Pirkko Alitalo, Dr Edward Andersson, Mr Casimir Ehrnrooth, Mr Jouko K. Leskinen, Mr Jorma Ollila, Mr Vesa Vainio and Mr Iiro Viinanen be reelected to the Board and Mr Paul J. Collins and Drs Robert F. W. van Oordt be elected as new members until the closing of the following AGM. Mr Collins is a Vice Chairman and Director of Citicorp and Citibank N.A. and Drs van Oordt is Chairman of the Supervisory Board of NKF Holding N.V.

Espoo, 12th February 1998.

Board of Directors of Nokia Corporation

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Petron postpones plans to construct $2bn oil refinery

By Justin Marozzi in Manila

Petron, the Philippines' largest petrol group, is holding off plans to construct a $2bn oil refinery because of the currency crisis.

Monico Jacob, chairman, said the decision to go ahead with a new refinery was taken in the first half of last year, before the peso was rocked by the regional currency crisis. It was then trading at about 26.4 pesos to the dollar, but has since fallen to a low of 46.55. In the past few days, it has hovered at 39–40 pesos to the dollar.

"What is important to us is the stability of the peso," Mr Jacob said. "The moment the peso stabilises, and we feel it will be stable, we will continue with our plans."

The new refinery, a central plank of the group's strategy to defend its leading market share of 42.6 per cent, was due to begin operations in 2000. It is expected to have a capacity of 200,000 barrels a day, compared with the group's existing refining capacity of 165,000 bpd.

Mr Jacob said the prolonged uncertainty over deregulation of the oil industry had also contributed to doubt over the new refinery. Last November the Supreme Court threw out the existing deregulation law as unconstitutional.

Earlier this month, however, following threats from new entrants such as Total of France that companies would leave the Philippines unless there was a decisive ruling on the issue, Congress passed a new deregulation law.

Louie Hilado, analyst at ING Barings, said the longer-term outlook for Petron was positive given the group's strong market position.

"Assuming we go to full deregulation after the five-month transition period, existing players like Petron will probably be in good shape. Competition is unlikely to impact fully within the next three years. Significant new investments still have to come in, and some of the new players remain a little jittery," he said.

With the combination of a currency crisis and legislative stalling on deregulation, Petron, which is 40 per cent owned by the state and 40 per cent by Saudi Aramco, has suffered more than most local groups from the regional turbulence.

Disney to face pressure at AGM

By Christopher Parkes in Los Angeles

Walt Disney's determination to resist pressure for a boardroom shake-up will be tested for the second year in succession at the entertainment group's annual meeting on Tuesday in Kansas City, Missouri.

A resolution from the College Retirement Equities Fund, the biggest US pension fund, calling for changes to ensure a majority of independent directors, is expected to win support from other large investors.

The company's army of small shareholders typically votes its vociferous majority almost unanimously on the side of Michael Eisner, the chief executive credited with guiding Disney through 13 years of success.

However, the measure of dissent recorded by institutional stakeholders will be closely watched on Wall Street and by other companies under pressure to install more active boards.

Proxy Monitor, which provides pension funds and investment managers with voting advice, has prepared an analysis supporting the case presented by the CREF for reconfiguring the board.

"There is no evidence that the Disney board is anything but a rubber stamp for its chief executive," the report says. Its members had "abdicated all responsibility" for succession to the chief executive's post to Mr Eisner himself. "And the results thus far have been less than propitious."

Mr Eisner rejected Jeffrey Katzenberg, who resigned to help set up DreamWorks, and settled on Michael Ovitz. "This proved equally unfortunate for Disney shareholders, who paid Mr Ovitz one of the largest severance packages in corporate history so he would go away."

Proxy Monitor also supports CREF's definition of an independent director – "one who has no present or former employment by the company or any significant financial or personal ties to the company or its management" – which has been rejected by Disney as "too restrictive".

Applying the pension fund's definition, the report suggests Disney fails to meet its own guideline that 60 per cent of its board should be independent.

It questions the status of seven members of the 16-person board: Mr Eisner's personal attorney, an architect who has worked for the company and also designed Mr Eisner's home, two former Disney executives, a former US senator who is also a paid consultant, the president of a university to which Mr Eisner is said to have donated funds, and the head of a school once attended by the Eisner children.

This announcement appears as a matter of record only. December 1997

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Arrangers

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CREDITO ITALIANO S.p.A.

Lead Managers

Banca di Roma - Filiale di Sassuolo
Banca Popolare dell'Emilia Romagna
Banco Ambrosiano Veneto - Filiale di Modena
Cassa di Risparmio di Reggio Emilia - Filiale di Sassuolo
Credito Emiliano - Filiale di Sassuolo
Rolo Banca 1473 - Filiale di Sassuolo

Co-lead Managers

Banca Commerciale Italiana - Filiale di Modena
Banca Popolare di Verona - Banco di San Geminiano e San Prospero - Filiale di Modena
Cassa di Risparmio di Torino - Filiale di Modena
Deutsche Bank - Filiale di Modena
Istituto Bancario San Paolo di Torino - Filiale di Modena

Participant

Banca Agricola Mantovana

Representative Agent
MEDIOBANCA
Banca di Credito Finanziario S.p.A.

Paying Agent
CREDITO ITALIANO S.p.A.
Filiale di Modena

MEDIOBANCA

Credito Italiano

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COMPANIES AND FINANCE

New York judge to rule on Andersen internecine strife

By Jim Kelly, Accountancy Correspondent

Lawyers for Andersen Consulting have told a New York federal judge that it is the victim of "naked hardball" tactics in its bitter public dispute with its sister firm, accountants Arthur Andersen, which are designed to force it to sue for peace rather than have its case heard by international arbitration.

Judge John Koeltl is expected to rule within a week on whether to grant Andersen Consulting an injunction against a resolution passed by the board of Andersen Worldwide – the organisation's umbrella body controlled by Arthur Andersen.

Barry Ostrager, attorney for Andersen Consulting, said the resolution was a "lawless exercise" designed to "hijack" the organisation and effectively to prejudge the decision of the court of arbitration at the International Chambers of Commerce in Paris.

The two firms, separate businesses under the Andersen Worldwide umbrella, are locked in a dispute over competition in management consulting, governance and cross-subsidies.

Mr Ostrager quoted a memo in which Jim Wadia, head of Arthur Andersen, warned that as a result of the resolution, Andersen Worldwide could terminate all its relationships with the consulting business.

While Andersen Consulting is seeking to dissolve the relationship, it is understood that it was effectively thrown out by Andersen Worldwide. It fears it would be on terms that could include large financial penalties and continued payments of income subsidy to Arthur Andersen.

However, attorneys for both Arthur Andersen and Andersen Worldwide insisted they had not threatened to end the relationship with Andersen Consulting.

Sheldon Raab, for Andersen Worldwide, said the board's recommendation would function only as a "recommendation" to Mr Bob Grafton – Andersen Worldwide's managing partner – who had opposed the resolution. Andersen Worldwide said it wanted the dispute resolved through arbitration. "In short, Andersen Worldwide will function just as if the resolution had not been passed," Mr Raab said

For Arthur Andersen, James Quinn said there was nothing nefarious about the Wadia memo, which had been intended to point out what the board had done and its implications. "It was meant to be informational," he said.

Andersen Worldwide and Arthur Andersen said complaints from the consulting business that its future would be jeopardy if it were kicked out of the organisation were difficult to believe, as it was itself seeking a dissolution of its ties with Andersen Worldwide from the international court of arbitration.

Andersen Consulting said its business would be in danger because it would be deprived of Andersen Worldwide's global infrastructure – including some computer systems, tax structure, operations handling procurement and employee matters. Mr Ostrager claimed this was an unfair way of forcing Andersen Consulting to go along with Andersen Worldwide's terms for an agreement.

Mr Quinn said Andersen Consulting's fears were "a little bit absurd" after its own decision to go to arbitration. Mr Raab said they had been seeking a divorce all along. "They can hardly claim now to be terrified by that prospect."

Failed merger clears way for Price Waterhouse, Coopers

Price Waterhouse and Coopers & Lybrand have won regulatory clearance for their planned global merger from competition authorities in South Africa, New Zealand and Poland – the first clear signals that concerns over consolidation may be lifting after the collapse of the rival merger planned by KPMG and Ernst & Young.

Regulators in the European Union and the US have begun investigations into the mergers and KPMG and E&Y claimed they had to abandon their deal in the face of growing scrutiny from Washington and Brussels – but also increasing interest in Canada, Australia, Switzerland and Japan.

Brendan Corr

Colin Sharman, KPMG chairman: rapid change now possible

While investigations into the PW and Coopers' merger are to continue, there have also been signals that the serious concerns expressed by Karel Van Miert, the European Commission's competition commissioner, may have been significantly reduced after the collapse of the KPMG-E&Y deal.

The commission's merger task-force was last week questioning professional bodies in Brussels about the possibility that the mergers would lead to the Big Six firms effectively controlling the current patchwork of self-regulation which covers auditing in Europe.

Observers reported that while the commission's officials are still investigating the issue of "regulatory capture" they have been reassured by most of the regulatory authorities that there is no such risk – although they are concerned at the lack of co-operation from some national professional bodies.

KPMG, meanwhile, is preparing to relaunch its businesses after the collapse of the E&Y merger. It plans to build a new international management structure alongside a global funding vehicle and raise up to $200m in debt finance.

Colin Sharman, chairman, said rapid change was now possible with the impetus from the merger talks: "You need a catalyst. Otherwise this would have taken us a long time."

The merger was designed to create a huge global player in the professional services sector. Mr Sharman said it was now possible for KPMG to achieve its goals outside a combination with another Big Six firm.

He said he hoped the new structure would be ratified by KPMG's global board in May and implementation would start in June – although he admitted there was some resistance within KPMG's current structure of strong national firms.

A new management structure was proposed to weld KPMG together on a global basis. A chief executive would be appointed for the global business with six senior executive partners. Mr Sharman would remain chairman. Regional executive partners would have a bigger role.

Other Big Six firms have always portrayed KPMG as one of the least integrated in the sector, characterising it as a loosely linked federation. Mr Sharman said he was determined to use the merger failure to bring change to KPMG.

A global funding vehicle would concentrate ownership of intellectual capital – such as the brand name, data bases, and methodologies. Partners around the world would cede control of the capital to the vehicle in return for equity. The vehicle would hold a "golden share" in each national firm.

KPMG was now confident it would be able to raise debt finance to replace the investment pool which would have been created by the merger. This would back development of practices in areas such as eastern Europe and new information-technology systems for the global organisation. "We are quite confident we can get there by another route."

One big driver behind the merger was the need to protect KPMG's US practice – the smallest in the Big Six – against the proposed merger of Price Waterhouse and Coopers & Lybrand. Mr Sharman said the US practice would be able to thrive without the merger thanks to strong organic growth.

He forecast outstanding revenue increases – of 50 per cent for consulting services, for example. "I am confident we can get to number three quickly," he said.

Jim Kelly

CLT-UFA sells TPS stake

By Neil Buckley in Brussels

CLT-UFA, Europe's biggest television and radio broadcaster, is selling its 20 per cent direct stake in TPS, the fast-growing French satellite TV service, to two other French co-shareholders in the venture, Suez Lyonnaise des Eaux and M6.

Suez Lyonnaise, the utility group formed by last year's merger of Compagnie Suez and Lyonnaise des Eaux, is acquiring 15 per cent, and M6, the commercial TV group, 5 per cent, increasing the share of each in TPS to 25 per cent.

Growth at TPS has outstripped expectations, reaching 360,000 subscribers by the end of 1997, when it was valued at FFr3.6bn ($589m) – or FFr10,000 per subscriber. The Luxembourg-based CLT-UFA's proceeds from the sale, FFr395m, take into account debt financing and the discount on the sale of a minority stake.

The disposal leaves CLT-UFA's developing digital pay-TV interests focused more clearly on the German market, where it plans to develop the Premiere joint venture with the Kirch group. The Luxembourg broadcaster has interests in 21 other TV stations, the majority of them free-to-air, and 22 radio stations in nine European countries.

Analysts had been surprised that no announcement on selling the TPS stake was made after a CLT-UFA board meeting last Thursday, in spite of widespread speculation about such an announcement.

Executives said after the meeting that CLT-UFA had had talks with several parties over selling the stake. One option, a sale to CanalSatellite, the rival French digital satellite group, had not been possible because of lack of agreement by TPS's other shareholders.

European Union competition authorities had also expressed concern over a possible link-up of France's competing digital services. Brussels is already probing the competition implications of CLT-UFA's Premiere venture with Kirch.

N Zealand newspaper group up

By Terry Hall in Wellington

Robust circulation gains in New Zealand helped offset subdued advertising for Independent Newspapers Ltd, which achieved a 10 per cent rise in net profits to NZ$28.8m (US$16.6m) in the six months to December 31.

INL owns The Dominion in Wellington, the first newspaper outside Australia to be targeted by Rupert Murdoch in 1965.

News Corporation now controls 51 per cent of INL, which owns newspapers in Australia and the US and recently acquired 40 per cent of New Zealand-based pay-tv company Sky TV.

Sir Colin Maiden, chairman, said directors expect similar trading in the second half while the outlook for the New Zealand economy remained uncertain. The group's New Zealand newspapers lifted revenue from NZ$47.04m to NZ$52.16m, in spite of a 5 per cent fall in advertising volumes.

Australasian newspaper, magazine and book distributor Gordon and Gotch – which has been a heavy drain on earnings – benefited from the latest restructuring, lifting profits by 19 per cent and doubled total earnings to NZ$9m.

US newspapers recovered from a loss of NZ$1.09m to a profit of NZ$1.07m. The New Zealand magazine group achieved substantial rises in circulation. An unchanged interim dividend of 11 cents a share will be paid.

Gulf Canada in disposals

By Scott Morrison in Toronto

Gulf Canada Resources is to sell its UK assets and spin off parts of its western Canadian natural gas pipelines in an attempt to raise about C$850m (US$599m) as part of a strategy to lower its C$2.8bn of long-term debt. The company also said 1997 earnings rose sharply.

Gulf's announcement follows the appointment two weeks ago as chief executive of 22-year Gulf veteran Dick Auchinleck, who identified debt reduction as his priority. Under former chief executive J.P. Bryan, the company issued C$1.6bn in long-term debt last year, and spent C$1.1bn on exploration and development and C$1.9bn on acquisitions, including Clyde Petroleum, the UK group, and Canada's Stampeder Exploration.

The company said it would sell four non-operating oil fields in the UK's North Sea that are budgeted to produce 19,000 b/d in 1998, as well as two other projects under development and exploration licences totalling 500,000 acres. Gulf's Netherlands holdings will not be part of the transactions.

In Canada, Gulf plans to create an infrastructure trust that will sell a portion of its natural gas transmission and processing facilities and monetise third-party processing revenues. The company said it would also sell C$150m of non-producing assets in the US and Canada, but added that it would proceed with plans for nearly C$1bn of capital expenditures in 1998.

The company said it aimed to reduce debt to about 2.5 times cash-flow within the next 12 months. Gulf's debt is currently equal to 4.4 times cash-flow. Analysts, who were growing concerned about Gulf's debt load, applauded the company's initiative. Mr Auchinleck said the repayment programme would help his company achieve an investment grade credit rating.

Meanwhile, Gulf Canada said its initial public offering of Gulf Indonesia last year enabled it to post 1997 earnings of C$204m, or 62 cents a share, up from C$37m, or 8 cents, in 1996.

SMH

SMH Swiss Corporation for Microelectronics and Watchmaking Industries Ltd, Biel

Repurchase of own shares

for the purpose of a

capital reduction

SMH Swiss Corporation for Microelectronics and Watchmaking Industries Ltd, Biel (hereinafter SMH), is launching a share repurchase programme and plans, in a first tranche, to repurchase its own shares up to ten percent of the share capital (equivalent to approximately CHF 600 million at the current market capitalisation). This decision was taken at a meeting of the Board of Directors on 18 February 1998. A corresponding capital reduction to the amount of the repurchase will be submitted to the General Meeting of Shareholders of 24 June 1998 for approval. The share repurchase programme underlines SMH's determination to continually and actively manage its capital base. The proposed share repurchase programme will include both bearer shares with a nominal value of CHF 50 each and registered shares with a nominal value of CHF 10 each, each in equal numbers and thus in proportion to their respective nominal values.

Second line of trading on the Swiss Stock Exchange

As part of the share repurchase programme announced by SMH, a second line of trading in SMH bearer and registered shares will be opened up on the Swiss Stock Exchange. Only SMH may purchase shares in this second line (via the bank mandated to execute the share repurchase), thus acquiring its own shares for the purpose of the subsequent capital reduction. Ordinary trading in SMH bearer and registered shares under securities numbers 080 045 and 080 044 respectively will not be affected by this second line of trading and will continue as normal. SMH shareholders wishing to sell shares thus have two choices, either to sell SMH bearer and registered shares in normal trading, or to make the shares available to SMH in the second line of trading for the purpose of the subsequent capital reduction. SMH is not obliged to buy every one of its own shares offered in the second line of trading, but will assess market conditions before making such purchases.

Sales of shares in the second line will attract Swiss federal withholding tax at a rate of 35% of the difference between the repurchase price of the SMH bearer and/or registered shares and their nominal value. This will be deducted from the repurchase price (= net price).

Repurchase price — The repurchase price, or price of SMH bearer and/or registered shares traded in the second line, will be based on the price of SMH bearer and/or registered shares traded in the principal line of trading.

Payment of net price and delivery of securities — Conditions of trade in the second line are the same as for normal stock exchange trading. Payment of the net price (repurchase price minus withholding tax on the difference between the repurchase price of the shares and their nominal value) and delivery of the SMH bearer and/or registered shares thus occurs, as is customary, on the third trading day after the transaction.

Mandated bank — SMH has mandated Credit Suisse First Boston, Zurich, to execute the share repurchase. Credit Suisse First Boston will be the sole stock exchange member offering bid prices on behalf of SMH in the second line of trading.

Sale in the second line — Shareholders wishing to sell should refer to their bank or to the bank mandated with the transaction, namely Credit Suisse First Boston, Zurich.

Quotation — Bearer and registered shares of SMH will be quoted for the second line of trading from 23 February 1998 in the main sector of the Swiss Stock Exchange.

Statutory stock market obligation — In accordance with the Swiss Stock Exchange ruling in this respect, all second line trading without exception is to be carried out on the stock exchange; over-the-counter trading is not permitted.

Tax — As far as federal withholding tax and direct tax are concerned, the repurchase of own shares for the purpose of a capital reduction is treated as a partial liquidation of the company making the repurchase. The implications of this for shareholders selling their shares are detailed below.

1. Withholding tax

Swiss federal withholding tax amounts to 35% of the difference between the repurchase price of the shares and their nominal value. The company making the repurchase, or the bank it has mandated, will deduct tax from the repurchase price for payment to the Federal Tax Administration.

Shareholders domiciled in Switzerland are entitled to reimbursement of the withholding tax if they are beneficial owners of the shares at the time they are surrendered (Art. 21, para. 1a of the Withholding Tax Law). Shareholders domiciled outside Switzerland may claim back the tax in accordance with any applicable double taxation agreements.

2. Stamp duty

The repurchase of own shares for the purpose of a capital reduction does not attract stamp duty (however, the stock exchange fee and Federal Banking Commission duty of 0.01% will apply).

3. Direct tax

The following applies to the levying of direct federal tax. Cantonal and municipal taxation procedures are, as a rule, the same as for federal tax.

a) Shares held as private assets

For shares repurchased by the company, the difference between the repurchase price and the nominal value of the shares constitutes taxable income (nominal value principle).

b) Shares held as corporate assets

For shares repurchased by the company, the difference between the repurchase price and the book value of the shares constitutes taxable profit.

This notice constitutes neither a quotation notice as defined by the Swiss Stock Exchange's quotation regulations, nor an issue prospectus as defined in Art. 652a and 1156 of the Swiss Code of Obligations.

Zurich, 23 February 1998 — The bank mandated to execute the transaction:

Credit Suisse First Boston

SMH bearer shares with a nominal value of CHF 50 each	Securities no. 080 045	ISIN: CH 000 080 045 5
SMH bearer shares with a nominal value of CHF 50 each (share repurchase, second line)	Securities no. 853 647	ISIN: CH 000 853 647 3
SMH registered shares with a nominal value of CHF 10 each	Securities no. 080 044	ISIN: CH 000 080 044 8
SMH registered shares with a nominal value of CHF 10 each (share repurchase, second line)	Securities no. 853 646	ISIN: CH 000 853 646 5

エマージングマーケット
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FINANCIAL TIMES
MARKETS
THIS WEEK

At Home in Emerging and Capital Markets
ING BARINGS

Global Investor / Philip Coggan

On the way towards a real fall

Is the world on the verge of a shift to a new era of lower real bond yields? It might be one of the best hopes for those who believe the equity bull market has a lot further to run.

Nominal bond yields have fallen about as far as they can to reflect the new low inflation era. Given the modest upward bias to inflation indices, one needs a fall in real yields to get the US Treasury 30 year bond below, say, 5 per cent.

With earnings growth set to fall in the face of the Asian crisis, it may need a valuation lift from bonds if stocks are to make further progress.

In a recent *apologia* for his bearish stance on UK equities in 1997, Mark Brown, head of strategy and economics at ABN Amro, points out that much of his error was explicable by a shift in real bond yields. His earnings and dividend forecasts erred on the side of optimism: it was the sharp fall in gilt yields, partly because of a reduction in inflation expectations (thanks to Bank of England independence) and partly due to lower real yields that ruined his prediction.

Brown says there have been five eras of real long US bond yields since 1821. Between 1821 and 1876, real yields averaged 5.3 per cent; from 1877-1931, the average was 3.5 per cent; 1932-68 saw a mean of 2.5 per cent; 1969-81 saw 1 per cent and 1982-1997 4.5 per cent.

Most attention has focused on the last two periods. In the first, investors were slow to adjust to higher-than-expected real inflation; nominal yields rose sharply, but not fast enough to compensate. In the second, the conventional explanation is that investors were "once bitten, twice shy" and were demanding higher real yields to compensate for the risk that inflation-prone governments would make the same mistake again.

But real yields are, of course, set at a level which equates savings with investment. A G10 study found that the main reason for the rise in real rates in the 1980s was a decline in the aggregate national savings rate; this in turn was largely due to the decline in public saving, in other words, the rise in budget deficits.

Deficit finance has both increased the supply of debt and created a vicious circle, in which governments are forced to borrow to meet the interest payments on previous deficits.

The edging down of real bond yields in the last couple of years may thus be due to the greater determination of governments, in the US and Europe at least, to bear down on their deficits.

Over the next few years, Bill Martin of UBS reckons the success of the US in tackling its budget deficit will be offset, on a global scale, by a deterioration in Japan's financial position. Much will depend, therefore, on European governments' ability to control finances under the stability pact.

The difficulties faced by European governments in cutting their deficits prompts Martin to reject the conventional wisdom that higher trend growth means higher real bond yields: "In today's world of excess government debt, a higher growth trend fosters lower budget deficits and less pressure on global capital markets." Bond prices should thus be rising, not falling, after the publication of strong GDP and industrial production data.

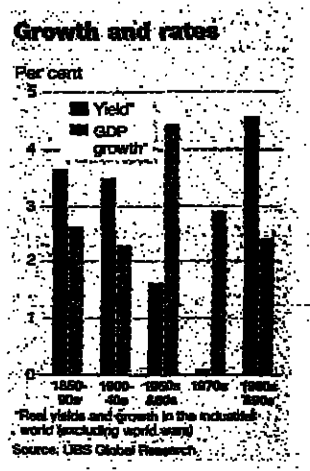
This holds out the prospect of a "golden scenario" for financial assets. Higher trend growth, by easing governments' fiscal problems, will lower real bond yields (giving equities a valuation kicker); at the same time, it should allow corporate earnings to grow steadily, giving fundamental support to shares. The next era could look something like the 1950s and 1960s (shown in the graph), with high growth and low real yields.

However, Brown is less sanguine. He says the ratio of the cost of capital and the real growth rate of GDP should be equal to the ratio of profits and investment. "When real rates are high relative to the growth rate, business is forced to squeeze a higher level of profits from a given level of investment, or conversely investment is squeezed relative to profits."

Significantly lower real interest rates, Brown argues, could thus be accommodated only by much weaker profitability and/or a boom in investment. On that analysis, lower real bond yields might not be good news for equities after all. The valuation lift from the bond market would be offset by slower earnings growth.

Going back to the G10 study, it concluded that savings rates should rise sharply over the next 10-20 years, as the baby boomers prepare for retirement, and then fall again as they live off their pensions. So there is a good chance that the next decade or so could see a fall in real yields.

Growth and rates



*Real yields and growth in the industrial world (excluding world wars)
Source: UBS Global Research

Total return in local currency to 19/02/98

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.07	0.07	0.12	0.15
Month	0.47	0.05	0.29	0.29	0.52	0.62
12 months	5.75	0.56	3.21	3.34	6.92	6.68
Bonds 3-5 year						
Week	0.15	0.36	0.12	0.08	0.25	0.02
Month	0.38	-0.05	0.69	0.64	0.63	1.12
12 months	8.45	2.76	5.03	4.50	13.20	8.89
Bonds 7-10 year						
Week	0.25	0.71	0.29	0.24	0.39	0.08
Month	0.49	0.45	1.54	1.05	1.19	1.26
12 months	10.84	7.44	10.88	8.07	24.52	13.59
Equities						
Week	0.5	-3.1	1.4	2.2	-0.4	2.6
Month	7.4	1.0	7.4	7.9	6.4	8.0
12 months	29.4	-6.1	38.2	27.0	64.7	32.1

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANIES DIARY

HSBC's provisions figure will be watched

TODAY: HSBC's share price has been buffeted by the effects of the crisis in Asia, but full-year results will give the first clues to the impact on the banking group's business. Investors will be watching its provisions charge closely, with the expectation of a large increase in Asian general provisions.

But the Asian crisis has also produced better interest spreads in some markets – with the notable exception of Hong Kong. A consensus from IBES, the estimates service, shows analysts expect a pre-tax figure of about £5bn ($8.35bn), up from £4.5bn.

● Akzo Nobel, the Dutch chemicals group, will report full-year net profits of Fl 1.6bn-Fl 1.66bn ($790m-$820m) up from Fl 1.33bn in 1996, according to analysts. Earnings per share are seen rising to Fl 22.80-Fl 23.24 (Fl 18.54).

In October, Akzo Nobel reported profit for the nine months to September of Fl 1.25bn, up from Fl 1.03bn and said the full-year figure would be 17-20 per cent higher than in 1996. Analysts now expect a rise of 21-25 per cent. Fourth-quarter growth will be driven by volume increase in the coatings and pharmaceuticals divisions and improved margins in the coatings and chemicals divisions.

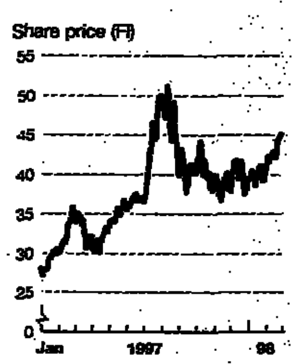
Economic turmoil in south-east Asia will have only a limited impact, as Akzo Nobel's sales in that region amount to less than 5 per cent of total sales.

The company may have some news about the placement of its industrial fibres activities into a joint venture with Sabanci Holding of Turkey, for which a letter of intent was signed last autumn with a definitive agreement expected this spring. *AFX, Amsterdam*

TUESDAY: Wal-Mart Stores, the US retailer, is expected to report earnings per share of 56 cents in the fourth quarter, up from 48 cents a year earlier, with the increase expected to come from improved margin controls and healthy sales, analysts said.

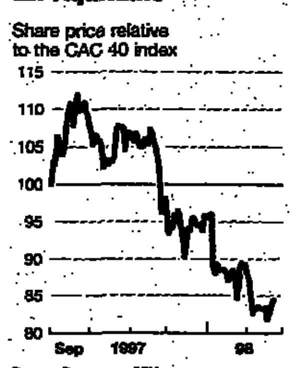
● Analysts also produced an average fourth-quarter earnings per share estimates for fellow retail chain Home Depot, of 41 cents. *AFX, New York*

ABN Amro



Source: Datastream/ICV

Elf Aquitaine



Source: Datastream/ICV

THURSDAY: ABB, the Swiss-Swedish engineering group, is expected to report 1997 net profit of $209m-$267m compared with $1.233bn. Sales are forecast at $32.1bn-$32.5bn, down from $34.6bn in 1996, according to analysts polled by AFX News.

Roger Birrer, analyst at Bank Julius Baer, forecasts net profit of $255m and sales of $32.15bn, and said the sharply reduced net profit figure was no shock taking into account the impact of the fourth quarter restructuring charge of $850m announced in the autumn.

Without the restructuring costs, operating profits would have been "more or less flat". He expects a "significant improvement" for 1998. *AFX, Zurich*

● ABN Amro, the Dutch bank, is expected to report a rise in full-year net profits to Fl 3.78bn-Fl 3.98bn ($1.88bn-$1.98bn), from Fl 3.30bn a year earlier. Earnings per share are forecast to rise to Fl 2.58-Fl 2.74, from about Fl 2.32 adjusted for its 4-for-1 sharesplit, according to analysts. They expect the full-year dividend to rise to Fl 1.24-Fl 1.25 from an adjusted Fl 1.05.

Despite persistent rumours, analysts are not expecting ABN Amro to pursue an aggressive takeover policy at the moment. They expect some increased provisions because of the Asian crisis, but this is likely to be offset by lower second-half bonus payments, allowing ABN Amro to maintain earnings growth at the 20.2 per cent seen in the first half.

The profit contribution from the US is expected to be good and the bank should benefit from the strong dollar. *AFX, Amsterdam*

● Elf Aquitaine, the French oil company, is expected to report 1997 net profits of FFr9.5bn-FFr9.7bn ($1.59bn-$1.62bn) up from FFr7.52bn in 1996.

A stronger dollar, firm oil prices and continued cost-cutting by chairman Philippe Jaffre will all contribute to earnings growth.

Elf's results are heavily dependent on external factors, notably the level of the dollar against the franc and the oil price. Bruno Weymuller, finance director, said last year that a $1 move in the Brent crude price had a FFr1.5bn impact on operating profit, with a 50 centime move by the dollar against the franc producing a similar effect.

Unit-cost reduction in the exploration and production division will have an impact on earnings, and there will be a strong performance from the refining and marketing division.

The first-half results included an exceptional gain of FFr342m and it will book the sale of its 1.2 per cent stake in Renault in the second half.

A dividend of about FFr15 (FFr14) is expected. *AFX, Paris*

FRIDAY: Getronics, the Dutch information technology company, will report full-year net profits for 1997 of Fl 172.9m-Fl 177.5m, up from Fl 131.6m, according to analysts.

Earnings per share are expected to rise from Fl 1.52 to Fl 1.96-Fl 2.02. *AFX, Amsterdam*

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INTERNATIONAL EQUITIES By Simon Davies

A culture ready to multiply

At a conference entitled "profiting from Emu" last week Herbert Allison, Merrill Lynch's president and chief operating officer, pronounced that Europe "is choosing to embrace growth, reform and change".

And the embrace of economic and monetary union has the potential for being enormously profitable for investment banks such as Merrill.

Even after the growth in continental Europe's stock markets over the past three years, Germany's stock market capitalisation is still 36 per cent of its gross domestic produce, and Italy's is 10 per cent lower. By contrast, the US stock market currently has the same value as the economy.

As Emu introduces the concept of pan-European investment, encouraged by the removal of currency barriers and restrictions on domestic investment for the 11 initial members, activity in equity capital markets is set to thrive.

John St John, co-head of equity capital markets at Salomon Brothers, said: "The harmonisation that we've seen in Europe since the fall of the Berlin Wall will be seen as nothing compared to what happens in the next 20 years. There will be greater liquidity in the stock markets and greater issuance."

European companies have traditionally been far more reliant on bank financing. But, as Mr Allison points out, "when an integrated European capital market becomes a reality, there is little to prevent companies from disintermediating banks and seeking capital directly in the securities markets".

Equity capital markets activity should be driven by three key factors. Emu will create a more liquid stock market, which in turn should encourage wider share ownership of previously domestic stocks.

Mr Allison quotes a recent survey showing "that more Germans believe in unidentified flying objects than in the suitability of equities as an investment for retirement". This should also be encouraged by the development of private pension schemes.

Further development of an equity culture would drive valuations, and therefore make it more attractive for companies to raise capital through equity.

This could also lead to a significant increase in flotations from relatively untapped parts of the regional economy, such as Germany's Mittelstand or medium-sized businesses, many being multi-billion-dollar companies.

Second, the privatisation programmes of many European countries still have a considerable way to go. Spain is selling tranches of Argentaria and Telefónica this year, France is due to sell shares in its national airline, while Italy should move on to its motorways and its largest electricity company.

Finally, Emu will spark significant regional competition in certain industries, leading to wholesale consolidation which will drive equity issuance. "SBC and UBS opened the Pandora's box of bank consolidation, and doing nothing is no longer an option," said one corporate financier.

For investment banks hoping to capitalise on this process, pan-European or global distribution will be vital. A number of smaller banks within previously protected domestic markets may struggle to compete.

Fees have already fallen significantly for big-ticket deals; but the increase in volumes should more than make up for it, and make Emu a remunerative concept for the global investment bank.

Financial Times Surveys
Singapore
Monday March 16
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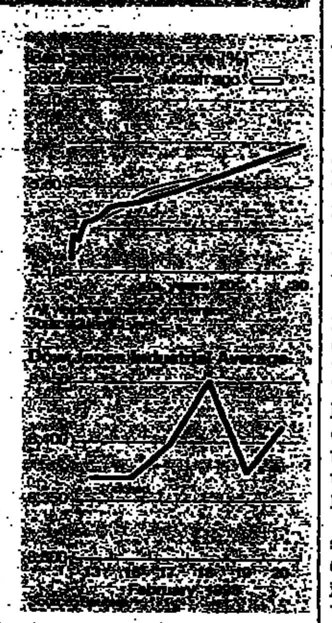
مكتبة الكحل

MARKETS: This Week

NEW YORK



The rest of the world may worry about Asia's economic crisis, the outcome of the weekend's G7 meeting and the looming possibility of armed intervention in Iraq, but they see things differently in New York.

Last week, the Dow Jones Industrial Average continued its surge to close on Friday at 8,413.94, just below Wednesday's record. As if to underline the market's insouciance, the New York Stock Exchange's opening bell will be rung this morning by Richard Parsons, president of Time Warner, and Heidi Klum, a model, "to celebrate the global success of Sports Illustrated's swimsuit issue".

If traders can bring themselves to consider more serious matters, one of the highlights of this week will be congressional testimony on Tuesday and Wednesday by Federal Reserve chairman Alan Greenspan.

But he is unlikely to dampen the enthusiasm. Economists expect him to indicate that Asia's crisis will help ease US inflationary pressures, making a near-term increase in interest rates unnecessary. On the other hand, the economy is not expected to be damaged enough to warrant an easing of rates.

On the domestic front, noteworthy statistics this week will include the January consumer price index, due tomorrow, which is expected to show no change in the headline figure.

Most US companies have published fourth-quarter results, but retailers, which tend to have fiscal years ending in January, have yet to report. Tomorrow Wal-Mart Stores, the world's biggest retailer, is expected to be among the first.

LONDON By Philip Coggan

Once again, the London market will start the week on the back of an all-time closing high on Friday. The FTSE 100 index has already risen by more than 600 points in the first two months of the year.

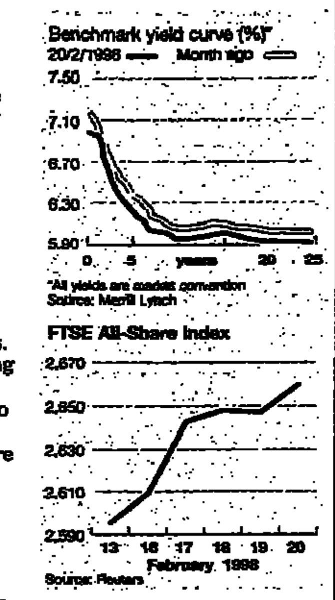
Bid speculation kept traders happy last week and, after the Kwik Save-Somerfield deal, the markets are searching for candidates in the retail, as well as the financial sectors. With institutions still having high cash holdings and companies returning cash to the market via buy-backs, takeovers help squeeze share prices higher.

With a relatively limited set of economic data in the diary, investors will have plenty of time to study the week's corporate results.

There is a strong financial flavour, with Abbey National, Alliance & Leicester, Commercial Union, Guardian Royal Exchange, NatWest, Prudential, HSBC and Standard Chartered all reporting. Particular attention will be paid to what the last two say about the situation in Asia.

Figures will also be released by Footsie constituents BG, Centrica and Rio Tinto. The two pieces of economic news should come from today's second estimate of fourth-quarter gross domestic product growth – 0.5 per cent is the consensus – and Friday's Confederation of British Industry monthly trends survey.

As Eddie George, the governor of the Bank of England, indicated last week, the UK has a two-speed economy, with the international manufacturing sector exposed to the strong pound while the service sector powers ahead.



FRANKFURT By Graham Bowley

Germany's financial markets ended on a quiet note last week. Floor-trading of the DAX index of 30 blue-chip shares closed on Friday at 4602.65, up 20.25. The Xetra DAX shares index stood at 4583.03, up 1.95, at the end of electronic dealing.

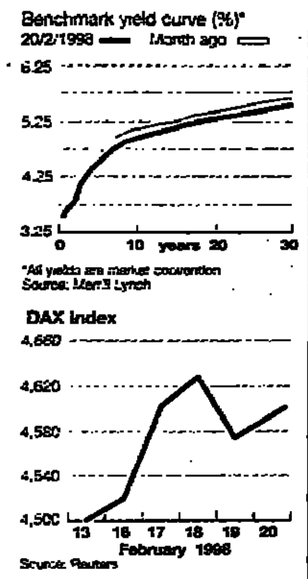
Last week brought more news of restructuring in German industry. Holzmann, Germany's biggest building group, which has suffered from the recession in the country's construction industry, announced it was shedding 4,000 jobs, including 3,000 in Germany, as part of a restructuring exercise. It said it would sell most of its French business and run down operations in Thailand.

On Wednesday, Viag, the industrial conglomerate, will report its latest results and on Thursday, MAN, the industrial group, presents its half-year figures.

On Friday, the German federal statistics office is due to publish national accounts for the fourth quarter of last year. UBS forecasts the figures will show an unchanged level of gross domestic product between the third and fourth quarters.

The figures will have implications for European and economic monetary union, since they will give Germany's budget deficit as a percentage of GDP for 1997. UBS predicts this will be 3.0 per cent, according to Germany's own definitions, or 2.9 per cent, according to the Eurostat definitions, within the limit required by the Maastricht Treaty for entry into Emu.

Producer price figures are due this week. Economists expect the annual rate of inflation to drop from 1.1 per cent in December to 0.8 per cent in January, owing to falling energy prices.



TOKYO By Gillian Tett

Tokyo stocks are expected to have another lacklustre week of trading, as traders continue to watch whether the Japanese government will unveil any more fiscal steps.

Last Friday, the government produced its fourth stimulus package in five months to help boost the ailing economy.

However, the package contained few new measures and did not include the tax cuts that many economists think are crucial to boost the economy.

Also, the Nikkei 225, the key stock market indicator, closed at 16,756.24 on Friday, some 34.77 points below its level a week earlier.

Meanwhile, the Japanese government was heavily criticised by the other G7 countries in London over the weekend over its failure to produce more striking economic measures.

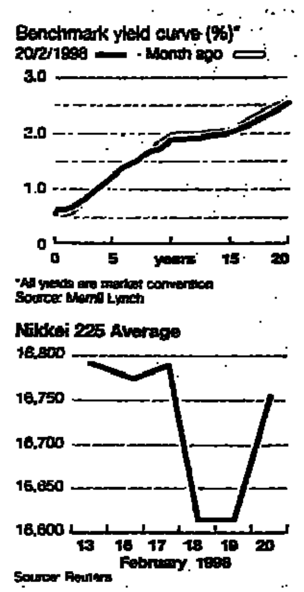
Consequently, the markets will be watching closely to see whether the government responds to these calls in the coming days.

Comments from US officials over the weekend suggesting that Japan and the US would co-operate to prevent a sharp fall in the yen might also affect the markets.

Traders fear that any dramatic strengthening of the yen now could hurt the prospects of the blue-chip exporters.

Another key issue will be the government's plans to help banks expand their capital bases by using public money to purchase preference shares.

The committee to decide which banks will receive the cash will hold its first meeting today and if it issues any hint that the scheme will be wide-ranging, this could support many banking stocks.



COMMODITIES

Price focus for silver experts in New York

On Tuesday in New York many of the world's experts on silver will attend the CPM Group's presentation of its 1998 survey of the precious metal's situation.

Those attending the presentation will probably wish they could have a nickel for every time they hear the words "Warren Buffett" during the day.

At the beginning of February, CPM Group assessed that Berkshire Hathaway, the financial services and investment company run by investor Mr Buffett, controlled some 20 per cent of the world's estimated silver supply at the end of 1997.

This followed the company's announcement it had bought 129.7m troy ounces of silver – worth about $850m at the close of trading on February 3.

Berkshire Hathaway made its first purchase on July 25 1997, when the price was below $4.50 per troy ounce. On February 6 the spot price reached $7.65 and floated back to $6.70 last week.

One of the key questions surrounding the price movement for silver concerns the reaction of consumers in India, the world's biggest market, which imports all its requirement.

They are, according to some analysts, being tempted to consider a move away from silver into gold, which is currently trading at just below the important figure of $300 per troy ounce.

India's demand for silver fell last year from about 4,500 tonnes in 1996 to about 3,500 tonnes. At the beginning of February, when silver spiked up above $7, the Bombay Bullion Association said: "If the price stays like this, demand will be less than 2,000 tonnes." – the equivalent of perhaps halving Indian demand.

In his latest market assessment Ted Arnold, Merrill Lynch's precious metals analyst, suggests this hefty demand slump is racing headlong towards a significant increase in mine production of more than 1,000 tonnes.

Ominously, he concludes that the two factors combined are "equivalent to a 16.3 per cent increase in total supply".

What Berkshire Hathaway has in mind, and where the price of silver may be headed, will give CPM's New York audience plenty to chew on.

CURRENCIES

Industrial data set to add to yen's woes

The Japanese yen could be in for a hard week, after the failure of its government's financial package to generate enthusiasm last week.

The yen has been helped in recent weeks by the market's hopes for the economic package, which was unveiled on Friday and accompanied by promises from top-level Japanese officials that more measures were to follow.

But the yen fell after the package was announced. And this week, it could suffer further if data due in Japan continue to show an economy in the doldrums.

Industrial production figures, to be released on Thursday, should reflect sharp recent declines in the vehicle and construction sectors. Last month's heavy snowfalls will not have helped.

Analysts at Deutsche Morgan Grenfell in Tokyo are expecting monthly growth of just 2.5 per cent in January – well below MITI's estimate of 4.3 per cent – which would take the annual rate to minus 3.6 per cent.

Large-scale retail sales in January could also show weak figures, while unemployment data out on Friday are likely to reflect the record number of bankruptcies.

With the underlying economy still showing few signs of life, and in the absence of strong words about the yen/dollar from the Group of Seven meeting, supporters for the yen are hard to find.

Jeremy Hawkins, economist at Bank of America, believes that there are few reasons to buy yen ahead of the "Big Bang" financial markets deregulation in Japan.

He thinks the recent firmness of the currency has been helped by the annual repatriation of overseas funds, but that the bulk of the inflows have already taken place.

In that case, there are few likely sources of support for the currency.

Gerard Lyons, chief economist at DKB International in London, predicts that the US will put "immense pressure" on Japan to boost demand, particularly in the wake of the widening of the country's trade surplus with the US.

OTHER MARKETS Compiled by Jeffrey Brown

PARIS

Along with many other European bourses, Paris probed record highs for most of last week, extending the gains since the lows of early January to almost 15 per cent. One result is that words like "fair value" and "consolidation" have lately become a standard of the broker vocabulary.

But sentiment remains remarkably upbeat. The recent run of big name company results have been top of the range; news that the government is working on the 1999 flotation of a further tranche of Renault shares has created a buzz of interest; and European Monetary Union moves closer by the day, bringing with it continuing pressure for corporate restructuring.

This week Elf Aquitaine, Sanofi, Paribas, CCF and Carrefour, all CAC 40 components, release 1997 results. The Carrefour supermarkets giant reports on Wednesday. With a big commitment to Latin America (more than 25 per cent of profits) and a 22 per cent rise for the share price this year, the trading statement is awaited by analysts and investors with bated breath.

MADRID

Banco Santander's $4.1bn bid for Banesto last week provided a shot in the arm for Spanish equities.

The market has rallied by more than 16 per cent since the start of the year, partly on hopes of a restructuring in the banking sector. For many, Santander's move has fired the starting pistol on a wave of mergers.

A Goldman Sachs report on Friday upgraded its recommendation on Spain to "overweight", mainly because "increasingly visible benefits from restructuring efforts will continue to bolster the banks sector".

However, some analysts remain sceptical. Inigo Lecubarri, at Salomon Smith Barney, points out that it remains difficult to integrate banking operations. Santander and Banesto, for instance, will continue to operate as stand-alone businesses.

He argues that Santander's rationale was to tidy up the group structure (it already owned 48 per cent of Banesto) and to increase capital ratios. "Investors are wrong if they believe this deal is going to start a wave of mergers," he says.

HONG KONG

Further volatility is expected this week, and investors are likely to remain sidelined, *writes Louise Lucas in Hong Kong*. As such, liquidity will remain thin: turnover fell to HK$5.74bn on Friday.

After Thursday's Budget, which introduced mortgage relief, property shares have been more stable. Prices generally were unfazed by Moody's announcement that it was downgrading some of the territory's credit ratings. The benchmark Hang Seng index is likely to remain range-bound.

This week takes in results from banking giant HSBC Holdings. These will provide insights into the impact on the banks of the high interest rates sparked by the Asian financial crisis.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Canadian National Railway (Canada)	Illinois Rail (US)	Transport	$3.52bn	Cash + debt deal
Laidlaw (Canada)	Safety-Kleen (US)	Waste m'ment	$1.76bn	Offer extended
GE Capital (US)/ Toho Mutual (Japan)	JV	Insurance	$284m	New benchmark
Mitel (Canada)	Unit of GEC (UK)	Semiconductors	$225m	Disposal complete
Patriot American (US)	Arcadian Int'l (UK)	Hotels	$150.5m	Tax-free threat
Krupp Automotive (Germany)	Unit of Caradon (UK)	Auto components	$128m	Canadian disposal
Siebe (UK)	Coleman Safety (US)	Safety equipmt	$88m	Needs clearance
Hanson (UK)	HG Fenton (US)	Building materials	$83m	Strategic buy
Dairy Farm (Bermuda)	Hero (Indonesia)	Retailing	$36.4m	31% stake
Mobil (US)/Pemex (Mexico)		Oil & gas	n/a	Focused talks

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 20, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7771.47	4750.00	2607.31	3723.88
Albania	(Lek)	258.095	157.750	86.5902	123.672
Algeria	(Dinar)	96.6086	59.0489	32.4113	46.2913
Andorra	(French Fr)	9.9941	6.1085	3.3531	4.7889
	(Sp Peseta)	252.508	154.395	84.7180	120.995
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gibraltar	(Gib £)	1	0.6112	0.3356	0.4792
Greece	(Drachma)	472.023	288.505	158.367	225.181
Greenland	(Danish Krone)	11.3601	6.9434	3.8114	5.4435
Grenada	(E Carib $)	4.4175	2.7000	1.4821	2.1167
Guadeloupe	(French Fr)	9.9941	6.1085	3.3531	4.7869
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pakistan	(Pak. Rupee)(4)	71.9882	44.0000	24.1559	34.4996
Panama	(Balboa)	1.6361	1	0.5489	0.7840
Papua New Guinea	(Kina)	2.9614	1.8100	0.9936	1.4190
Paraguay	(Guarani)	4106.61	2510.00	1377.78	1967.75
Peru	(New Sol)	4.5809	2.8000	1.5403	2.1998
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbreviations: [illegible] Friday, February 20, 1998.

SIEMENS

Notification of Dividend

The Annual Shareholders' Meeting of Siemens AG on February 19, 1998, has resolved to distribute the net income of DM 856,732,275 for the financial year 1996/97, and has approved the payment of a dividend of DM 1.50 per share of DM 5 par value. The amount attributable to treasury stock, a total of DM 43,504.50 shall be carried forward.

Against Dividend Coupon No. 42, the paying agent listed below will pay the dividend less 25% withholding tax and the 5.5% solidarity surcharge on the withholding tax.

In accordance with the U.K./German Double Taxation Treaty of November 26, 1964, as amended in the protocol of March 23, 1970, the German withholding tax together with the solidarity surtax have been reduced to a total of 15% for shareholders resident in the United Kingdom. To claim this refund, shareholders must submit an application to the Bundesamt für Finanzen, Friedhofstr. 1, D-53225 Bonn, by December 31, 2002.

In the United Kingdom, payment will be effected through the following bank:

SBC Warburg Dillon Read,
Swiss Bank House,
1 High Timber Street,
London EC4V 3SB.

Berlin and Munich, February 19, 1998

Siemens Aktiengesellschaft
The Managing Board

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Amended Notice of Interest Rates

To the Holders of

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New Money Notes Due 2006
Debt Conversion Notes Due 2007

NOTICE IS HEREBY GIVEN that the interest rates covering the interest period from February 19, 1998 to July 2, 1998 are detailed below.

Series Designation	Rate	Interest Amount	Interest Payment Date
[illegible]	[illegible]	[illegible]	July 2, 1998
[illegible]	[illegible]	[illegible]	July 2, 1998
[illegible]	[illegible]	[illegible]	July 2, 1998

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EMERGING MARKETS By Charles Clover in Kiev

Buyer is king in Ukraine

The Ukrainian stock market is full of bargains. On the basis of simple valuation comparisons, Ukrainian companies are possibly the cheapest in Europe.

The $47m Nyzhnyodniprovsky pipe rolling company, for example, trades at $105 per ton of output, half the price of a comparable Russian plant selling for $237, according to research by the brokerage Wood and Company. Dniproenergo, the $450m electric power generator, sells for $55,000 per megawatt of installed capacity, compared with Czech generators selling for $130,000, according to Atlantik East brokerage.

Last year, Ukraine's $4bn stock market boomed as foreign money poured in. Ukraine country funds raised nearly $500m and daily turnover rose to $3m. Such was the demand for Ukrainian stocks that virtually the only way to get into the market was to buy privatisation certificates, issued to private citizens as part of the country's mass privatisation effort, and exchange them for shares at auctions.

However, in the wake of the Asian economic crisis, the tide of foreign investment has subsided.

"Last year, the seller was king. Now the buyer is king," said Tomas Fiala, head of Wood and Company.

There are good reasons for the companies to be so cheap. Many are not fully privatised, and there are a variety of macroeconomic problems afflicting the Ukrainian enterprise sector, not least of which is a pervasive shortage of cash.

But with further privatisations planned for 1998, especially in the electricity sector, oil refining, and metals, some experts are quite bullish about the potential.

By the end of 1998, Wood and Company expects market capitalisation to climb to $12bn, with turnover up to $15m a day, assuming the government's ambitious privatisation programme is carried out.

There have been problems over shareholder rights issues, although corporate governance legislation passed in January has closed some legal loopholes

While more than 8,000 enterprises in Ukraine have been privatised, these are mostly small-scale, and virtually all the country's large-scale productive capacity is still majority state-controlled. Most experts say fully privatising them will be a catalyst for an increase in share prices, and that now is the time to buy shares of state-owned companies that have been partially sold.

"The primary factor in the development of the stock market in 1998 is how privatisation is conducted," said Charles Saunders, head of research for MFK Rennaissance, the Moscow-based investment bank.

Two weeks ago, parliament passed the president's 1998 privatisation law, and Leonid Kuchma, president, is expected any day to sign it, opening the way for hundreds of millions of dollars worth of sell-offs.

But with parliamentary elections scheduled for the end of March, investors are concerned that a left-wing landslide could put the privatisation process on hold.

Alexander Bazarov, head of Credit Suisse First Boston in Kiev, said: "I don't expect an explosion of interest before the elections. Experience from other countries shows that elections do not matter for the stock market, but nevertheless, investors here are worried."

Another problem afflicting all Ukrainian companies is a chronic lack of cash. A survey by the European Union's Tacis project estimates that the payment arrears of Ukraine's companies amount to more than $60bn – higher than the country's gross domestic product.

For example, the electric utilities on average receive only 10 per cent of their revenues in cash and much of the financial information on companies is unreliable, because barter terms are valued arbitrarily.

A host of other reforms are needed before the Ukrainian enterprise sector can get off the ground. Companies face tax rates as high as 90 per cent, as well as monopolistic energy trading companies that can absorb virtually all a company's profits in exchange for energy supplies.

And shareholders have faced problems in the past over shareholder rights issues, although new corporate governance legislation passed in January has closed some legal loopholes that had been abused.

In September, for example, Ukrnafta, the Ukrainian state-controlled oil company, tried to spin off a subsidiary responsible for 40 per cent of the company's revenues: a shareholder suit stopped the action.

But shareholders of Dniproshina, which produces two-thirds of Ukraine's truck tyres, were not so lucky.

In November, Dniproshina's management decided to increase share capital by a third and give itself preemptive rights to the new equity, which was priced at a nominal value of 9 hryvnia, or 12 per cent of its market value.

The issue has become a cause célèbre among Kiev's brokerage houses, which have since boycotted the stock and are considering a suit against the company's management.

"Shareholder rights issues could make a big difference in the reputation of Ukraine's stock market," said Mr Bazarov.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms Feb 19th 1998	% Change over week	% Change on Dec '97
Latin America	(270)	613.07	−0.8	−9.5
Argentina	(32)	1,085.66	−1.9	−2.7
Brazil	(75)	469.51	−1.2	−2.7
Chile	(50)	588.68	+6.0	−8.7
Colombia[1]	(16)	643.64	−1.9	−22.0
Mexico	(61)	662.95	−2.8	−15.9
Peru[2]	(24)	191.87	−4.6	−13.3
Venezuela[3]	(12)	748.29	+5.8	−18.2
Asia	(756)	125.81	+2.1	16.8
China[4]	(43)	48.67	−4.7	−12.0
South Korea[5]	(184)	34.05	−1.7	+41.7
Philippines	(49)	128.66	−0.3	+14.1
Taiwan, China[6]	(96)	160.51	+2.3	+13.8
India[7]	(72)	78.32	+3.8	−6.0
Indonesia[8]	(61)	27.02	+1.6	−19.7
Malaysia	(157)	121.11	+4.4	+32.9
Pakistan[9]	(24)	238.51	−2.0	−4.0
Sri Lanka[10]	(5)	118.58	+5.7	+1.9
Thailand	(65)	78.26	+1.9	+66.4
Euro/Mid East	(395)	143.90	+0.5	−2.6
Czech Rep	(6)	51.53	−2.9	−5.8
Egypt	(28)	87.37	+0.3	−6.3
Greece	(54)	316.29	−5.4	−2.4
Hungary[11]	(13)	293.64	−0.3	−6.7
Israel	(45)	109.59	+2.3	−10.0
Jordan	(6)	205.10	−0.6	−2.5
Morocco	(11)	136.07	+0.9	+4.4
Poland[12]	(29)	718.30	+3.8	+20.4
Portugal	(23)	249.08	+2.2	+18.0
Russia	(30)	116.41	+0.9	−21.7
Slovakia	(5)	86.25	−4.5	−13.0
South Africa[13]	(76)	194.82	+2.1	+8.4
Turkey[14]	(58)	235.23	−4.7	−24.6
Zimbabwe[15]	(10)	264.97	−6.1	+6.3
Composite	(1,423)	243.88	+0.5	−0.9

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991, (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991, (7)Nov 6 1992, (8)Sep 28 1990; (9)Mar 1 1991, (10) Dec 31 1992; (11)Dec 31 1993, (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

INTERNATIONAL BONDS By Samer Iskandar and Edward Luce

The rise and rise of the jumbo bond

The recent trend towards larger bond issues is likely to be confirmed this week, as several borrowers are expected to launch benchmark deals with amounts of $1bn or more.

Cades, the French state-backed entity set up to manage the accumulated debts of the social security system, is planning to issue a third tranche of its multi-currency euro-fungible issue, denominated in guilders. The amount will be determined by market conditions, but the previous tranches were FFr8bn and DM3bn.

Fannie Mae, the largest US mortgage lender, is also expected to tap the market with the third issue in its "benchmark note" programme. Previous five-year and 10-year issues were in amounts of $4bn each.

Linda Knight, treasurer of Fannie Mae, says there is a pricing advantage in issuing large amounts: "There is a clear and direct benefit to our yield curve by issuing jumbo bonds."

The World Bank is also understood to be considering a $5bn issue, which would be the largest ever fixed-coupon bond.

"In theory, there is an immediate benefit to borrowers as investors are believed to be ready to give up some yield in exchange for greater liquidity," said one analyst in London.

This is already apparent on some existing deals. A FFr10bn three-year bond by Cades, for example, is trading at a yield spread of 10 basis points over French Treasury debt. This compares with a 14 basis points spread on a similar, FFr1bn issue by CEPME, the financing agency for small companies whose debt is guaranteed by the French state.

"The cost saving from a jumbo issue amounts to between three and five basis points, depending on the maturity," says Christophe Frankel, head of funding at Cades.

Bankers estimate that Fannie Mae has also derived savings of three to five basis points from the massive size of its recent benchmark deals. Each basis point in yield costs the borrower $1m over the life of a $1bn issue of 10-year bonds.

However, for many issuers in the jumbo market, the benefits have not materialised immediately. "When a borrower launches its first jumbo deal, it sometimes needs to offer a more generous spread to attract new investors," says John Butler, chief fixed-income strategist at WestLB in London.

This was the case for several issues of global Pfandbrief bonds, which failed to meet their cost saving objectives. "But over time, they [jumbo Pfandbriefe issuers] will be able to issue at tighter levels because they will have a larger investor base," Mr Butler says.

There are other cost advantages to larger issues. These include lead managers' willingness to accept proportionately lower fees, and fees linked to documentation and legal paperwork are also reduced.

"Every bond issue requires a prospectus, and these are often identical, regardless of the issue size," says a syndicate manager at a large US bank in London. "So it is cheaper to write one prospectus for a billion-dollar deal than two prospectuses for two smaller issues."

Jumbo issuers are also pinning high hopes on building a complete yield curve. They believe investors will also expect to receive lower yields in exchange for arbitrage opportunities along the yield curve.

"Providing a liquid yield curve also gives you some kind of premium," Ms Knight says.

However, Mooyaart, a company which analyses bond prices relative to the performance of the most liquid benchmark issues, dismisses many of the arguments in favour of jumbo bonds as "pure marketing".

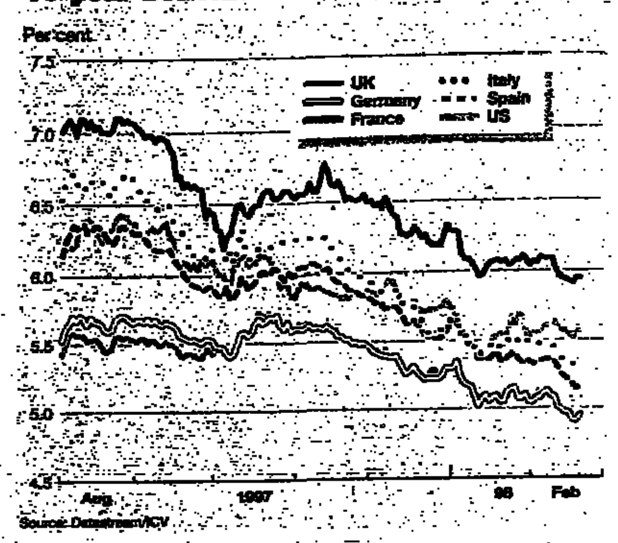
One put forward by borrowers such as KfW, the German federal development agency, is that issuers could establish a "surrogate" yield curve to the government bond yield curve.

This argument is "largely baseless", according to Brian Mooyaart, director of Mooyaart. "To provide the sort of liquidity a government provides, a borrower would have to issue at least $5bn a month and no borrower – not even the World Bank – can do that."

He also says that maintaining a full and liquid yield curve could prove to be more of a headache than a benefit. For example, the borrower might need eight to 10-year funds but the market would demand a two-year bond to keep the yield curve fully supplied. "Pledging to maintain a liquid yield curve is one way of tying your hands behind your back," he says.

Analysts also say jumbo issuers are taking advantage of cyclical factors in their favour, including the "flight to safety" prompted by the Asian crisis and the popularity of the dollar. Once these disappear, supranational borrowers could return to the "opportunistic" habit of issuing in high-yield currencies to exploit good arbitrage opportunities.

10-year benchmark bond yields



Source: Datastream/ICV

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.30	6.50	7.25
Overnight	n/a	n/a	3.32	3.32	6.25	n/a
Three month	5.19	0.57	3.40	3.42	5.96	7.45
One year	5.22	0.57	3.69	3.58	5.02	7.06
Five year	5.47	1.21	4.50	4.55	4.82	6.21
Ten year	5.53	1.90	4.99	5.00	5.34	5.97

[illegible] Source: Datastream

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Region of Lazio(g)	200	Feb 2018	6.20§	100.00	6.200	+65(6⅛%-Feb07)	Merrill Lynch
Region of Lazio	100	Feb 2028	6.53§	100.00	6.530	+65(6⅛%-Nov27)	Merrill Lynch
KfW International Finance(b)	250	Jan 2005	5.75	99.278R	5.846	+37 [illegible]	CSFB/Deutsche MG
CIBC‡	250	Mar 2003	(i)	99.954R	-	-	Salomon Smith Barney
Paribas Exchangeable(k)	100	Mar 2001	zero	100.00	-	-	Paribas
Premier Auto Trust 98-1(l)‡	1.2bn	-	-	-	-	-	Merrill Lynch
M Stanley Aircraft Fin(u)	1.05bn	-	-	-	-	-	Morgan Stanley DW
Baden-Württemberg L-Fin	1bn	Feb 2008	5.75§	99.408R	5.829	+36 [illegible]	Lehman/Salomon SB
Fed Natl Mortgage Assoc(r)	500	Feb 2003	5.66§	100.00	5.660	+51 [illegible]	Merrill/Salomon SB
Bank of Western Australia‡	100	Feb 1999	(w)	100.10	-	-	CSFB/Deutsche MG
Inter-American Dev Bank	1bn	Feb 2008	5.75§	99.559R	5.808	+30 [illegible]	CSFB/Deutsche MG
World Bank(y)	500	Feb 2028	zero	13.604R	-	-	Cabots/Lehman Bros
LB Rheinland-Pfalz	300	Feb 2028	[illegible]	100.00	-	-	Morgan Stanley DW
Oscar Funding Corp(l)‡	300	Mar 2003	(B1)	100.00	-	-	DG International
Project Fdg Corp, Cs A(z)‡	537.08	Jan 2012	(J1)	100.00	-	-	CSFB
Aesop Funding II, 98-1(K)	600	May 2008	6.14§	99.852R	6.22	+67 [illegible]	Lehman Brothers
Gnome Funding Corp(L)‡	367	Mar 2003	(L1)	100.00	-	-	SBC Warburg DR
Bilbao Vizcaya Intl(N)	300	undated	7.20§	100.00	7.20	-	Merrill Lynch Intl
Amethyst Funding Corp(O)‡	250	Sep 2003	(O1)	100.00	-	-	IBJ International
Countrywide, Cls A [illegible]‡	131.3	Jan 2005	[illegible]	100.00	-	-	Merrill Lynch Intl
ADI Corp(P)§	55	Mar 2001	7.00§	100.00	-	-	Jardine Fleming
D-MARKS							
Republic of Austria(m)	1bn	Jul 2003	4.30(s)	98.996R	4.52	flat(Jul03)	Commerzbank
Bancaja Intl Finance‡	200	Mar 2003	(n)	99.98R	-	-	Merrill Lynch CM Bank
Bayerische Vereinsbank(p,x)	1bn	Dec 2003	4.50(s)	99.00R	4.70	+14(6%-Nov03)	(x1)
Bayerische Hypo(p,x)	1bn	Dec 2003	4.50(s)	99.00R	4.70	+14(6%-Nov03)	(x1)
Santander International(y)	500	Feb 2008	5.375	100.709	5.280	+35(5¼-Jan08)	Barclays Capital Group
Kyushu Electric Power	500	Mar 2003	4.75	99.75R	4.807	+37(5¾%-Nov02)	Dresdner/IBJ Intl
Russian Investments(Cay)(H)	100	Mar 2018	(H1)	99.50	-	-	Paribas
STERLING							
Capital Shopping Centres(a)	200	Mar 2013	6.875§	99.061R	6.977	+100(9%-12)	Dresdner/SBCWDR/UBS
C&W Communications(a)	300	Feb 2005	7⅛(a)	99.908R	7.142	+100(6¾%-04)	HSBC/Merrill Lynch
C&W Communications(a)	200	Feb 2017	7.375	99.925R	7.382	+135(8%-15)	HSBC/Merrill Lynch
ILSE No 1, Class A(r)‡	232.5	Dec 2024	(r1,I)	100.00	-	-	JP Morgan Securities
Abbey Natl Treasury Services	250	Mar 2004	6.50	99.804R	6.541	+38(6¾-Nov04)	Barclays/M Stanley
Cades	250	Mar 2008	6.25	98.944R	6.398	+35(7¼-Dec07)	Merrill Lynch Intl
FRENCH FRANCS							
CCDO(b)‡	500	Mar 2013	(b1)	99.25R	5.600	+50(8-10yr)	Barclays/CDC Marchés
Sun America Inst Funding	1.5bn	Jul 2008	5.25(s)	99.733R	5.288	+34(l)	Paribas
Crédit Local de France(C)	1bn	Apr 2008	5.25(l)	100.20R	5.219	+25(5½-Apr08)	Société Générale
ITALIAN LIRE							
British Gas Intl Finance	250bn	Mar 2005	5.25(c)	101.195	5.043	-	BNP/Deutsche MG
Republic of Colombia	400bn	Mar 2002	7.09	99.90R	7.030	+207(swaps)	Chase/JP Morgan Secs
Republic of Argentina(D)	750bn	Oct 2009	(D1)	99.80R	8.80	+325(swaps)	Chase/Paribas
SWISS FRANCS							
Province of Quebec	500	Sep 2008	3.50(s)	103.00	-	-	CSFB
JFM	160	Mar 2008	3.00	102.10	2.757	-	SBC Warburg DR/UBS
GUILDERS							
Republic of Austria(a)	1.5bn	Jul 2003	4.38(s)	99.34R	4.480	flat(Apr03)	ABN Amro
World Bank	750	Mar 2008	5.375	99.471R	5.445	+45(t)	ING Barings
EUROS							
Kingdom of Spain(e)	1bn	Jan 2028	(d)	98.313R	5.737	+15(6¼%-22)	(E2)
Pyramid Capital Netherl(h)	217.7	Dec 2005	(w)	100.00	-	-	Paribas
PESETAS							
European Investment Bank	15bn	Mar 2008	5.00	99.578	5.056	[illegible]	BCH/BSN
LUXEMBOURG FRANCS							
Kredietbank Luxembourg	2bn	Apr 2008	(g)	102.75	5.20	-	Kredietbank Lux
CANADIAN DOLLARS							
GECC	100	Mar 2003	5.125	99.615R	5.267	+55 [illegible]	CIBC Wood Gundy
Commerzbank AG	100	Mar 2003	4.25(s)	98.18R	5.227	[illegible]	TD Securities
Ontario Hydro	250	Apr 2003	5.60	99.46R	5.475	+47 [illegible]	TD Securities
NEW ZEALAND DOLLARS							
Commonwealth Bank	100	Mar 2003	6½(c)	100.975	7.58	-	TD Securities
Landesbank Schleswig-Holstein	100	Mar 2001	8.00	101.445	7.558	-	TD Securities
World Bank(f)	400	Aug 2007	zero	51.742	7.195	+27 [illegible]	TD Securities
SWEDISH KRONOR							
Toyota Motor Credit Corp	500	Dec 2003	5.50(s)	102.10	5.07	-	Bank Brussels Lambert
POLISH ZLOTYS							
World Bank(G)	175	Feb 2003	18.00	97.375R	-	-	Merrill Lynch Intl

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Spens call provision. b) Callable on 18/3/08 at par. b1) 5½% to 18/3/08, then 3-mth Pibor +140bp. c) Long 1st coupon. d) 4½% to 17/4/02, then 6% to 17/4/05, then 7%. e) Pays in Ecu prior to Emu. Spreads relate to French govt Ecu bonds. f) NZ$100m launched 9/2/98 was increased to NZ$200m. g) Constant linear amortisation. h) Fungible with $750m. Plus 39 days accrued. i) Over interpolated yield. j) 3-mth Libor -6¾bp. k) Exchangeable into Petrobras at $28.33. Backed by US Treasury strips. Callable after 2 yrs at par. l) Long 1st coupon. m) DM1bn, Fl 1.5bn and Sch25bn become fungible upon Emu. n) 6-mth Libor +6¾bp. p) Oeffentliche Pfandbriet. q) Long last coupon. r) Originator: Abbey National. Callable from 15/3/05 at par. Av life: 4.99 yrs. 10% cleanup call. r1) 3-mth Libor +16bp to Mar 05, then +30bp. r2) Class B: £15m, 3-mth Libor +35bp to Mar 05 then +70bp. 6.89 yrs. s) Short 1st coupon. t) Originator: Chrysler. 5 tranches. u) Secured on aircraft leases. 5 tranches. v) Callable from 25/2/00 at par. w) 3-mth Libor -5bp. x) Fungible upon merger. x1) Joints: Bayer Hypo, BayerVB, CDC, Commerzbank, Deutsche, Dresdner, Goldman, WestLB. y) Plus 29 days accrued. Fungible with FFr2bn and Fl 400m upon Emu. z) Callable on 18/2/03 at 18.883%, 08 at 26.355%, 13 at 36.783%, 18 at 51.337% and 23 at 71.65%. A) 5% to 23/2/00, then 6⅞%. B) Orient Corp auto loan asset backed. Expected av life: 1.8-2 yrs. B1) 1-mth Libor +28bp. C) Fungible with FFr3bn. Plus 36 days accrued. D) Exchangeable with DM1bn after Emu. D1) 10½% to 30/10/00, then 8%. E) Fungible with Pta333.556bn upon Emu. E1) Interest accrues from 31/1/99. E2) Joints: Barclays, CSFB, Deutsche, Santander Investment. F) Fungible with NZ$600m. G) Payments in DM. H) Secured on AAA-rated sovereign and supranational bonds. H1) 11% to Mar 00, then 8%; subject to event risk. J) 5 tranches total $817.4m. 10% cleanup call. J1) 3-mth Libor +28bp. K) Administrator: Avis Rentacar. Av life: 7 yrs. Monthly coupons. L) Originator: Japan Lease Corp. Av life: 2.2 yrs. L1) 1-mth Libor +34bp. N) Preference shares. Callable from Mar 03 at par. N) Originator: IBJ Leasing. Av life: 2.27 yrs. N1) 1-mth Libor +30bp. O) Asset Backed Secs. Legal maturity: Feb 28. Av life: 2.3 yrs. 11 tranches total $282m. 10% cleanup call. O1) 1-mth Libor +21bp. P) Conv price: NT$33. FX: 32.8 NT$/US$. Callable after 2 yrs subject to 110% hurdle. Greenshoe: $10m. Q) Conv price: L3,885.09 to 31/12/03, then L3,654. FX: 1948.9 L/E. Redemption price: 124%. Greenshoe: 15%. Note: Yields are calculated on ISMA basis.

Banco Comercial Português

BANCO COMERCIAL PORTUGUÊS, S.A.

General Annual Meeting of Shareholders
CALL NOTICE

I convene the shareholders of Banco Comercial Português, S.A., a public company registered under number 40 043 in the Oporto Register of Commerce, with registered office at Rua Júlio Dinis, 705-719, in Oporto, with the paid up capital stock of PTE 156,006,351,000, to attend the General Meeting to be held at 03.00 p.m. on March 12, 1998, at the "Palácio da Bolsa", in the city of Oporto, with the following agenda:

1) To resolve upon the business report and accounts of Banco Comercial Português respecting the year of 1997, as well as upon the consolidated business report and consolidated accounts respecting the same year;
2) To resolve upon the proposal of application of year-end results;
3) To effect the general analysis of the management and auditing of the company with the amplitude foreseen in the law, namely in subparagraph c) of paragraph 1 of article 376 of the Companies Code;
4) To resolve upon the ratification of a Director's co-optation;
5) To resolve upon the replacement of a Senior's Board member;
6) To resolve upon the increase of the capital stock in up to PTE 188,840,000,000 in cash, through the issue of up to 32,833,649 new shares with the nominal value of PTE 1,000 each, at the issuance price of PTE 3,050 per share, as well as upon the consequent by-laws' amendments (articles 5 and 7 of the by-laws) and reflex on convertible securities;
7) To resolve upon the limitation of the pre-emption right of the shareholders related to the increase of the capital stock referred to in the previous number and upon the consequent offer of subscription for the workers of the Bank and subsidiaries of shares corresponding to up to 5% of the issue;
8) To resolve upon the group relation with wholly-owned company;
9) To resolve upon the acquisition and sale of treasury shares;
10) To resolve upon the acquisition and sale of treasury bonds;

The proposals to be submitted to the General Meeting by the Board of Directors, the reports that must legally be presented with them and the other preparatory information elements, as well as the text of the proposed by-laws amendments, are available to the shareholders at the registered office of the company since the legal dates.

As condition for attendance to the meeting, the shareholders must prove by admissible legal form, to be shareholder in the fifteenth day before the date scheduled for the meeting and keep such condition at the time of the meeting. Each PTE 100,000 of capital corresponds to one vote, the shareholders being entitled to be represented by proxy, as well as the holders of fewer than 100 shares to aggregate their interests, in all remaining being applicable the terms and limits of the law and of the bylaws, namely its article thirteen.

Oporto, January 28, 1998

The Chairman of the General Meeting of Shareholders

(Luis Francisco Valente de Oliveira)

LEGAL NOTICES

No. 00646 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
MULBERRY COMPANY (EUROPE) LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the fifth day of February 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the Capital of the above-named Company from £500,000 to £40,000 and the cancellation of the Share Premium Account of the above named Company.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 4th day of March 1998.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of Share Capital and cancellation of Share Premium Account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated this 23rd day of February 1998.

Wansbroughs Willey Hargrave
103 Temple Street
Bristol BS99 7UD

Ref: MUL002-NCC96/CC

Solicitors to the Company

Appointments Advertising

appears in the UK edition every Monday, Wednesday & Thursday and in the International edition every Friday.

For further information please contact:
Toby Finden-Crofts
+44 0171 873 4027

LEGAL NOTICES

NOTICE OF MEETING OF SCHEME CREDITORS

IN THE HIGH COURT OF JUSTICE
No. 006010 of 1994
CHANCERY DIVISION

IN THE MATTER OF
ENGLISH & AMERICAN INSURANCE COMPANY LIMITED

AND IN THE MATTER OF THE COMPANIES ACT 1985

Meetings of creditors of English & American Insurance Company Limited ("the Company") have been summoned by the Scheme Administrators pursuant to Clause 8.1 of the Scheme of Arrangement for the purposes of receiving a report ("the Report") on the conduct of the affairs of the Company and the operation of the Scheme of Arrangement since February 1995, the effective date of the Scheme of Arrangement. A copy of the Report can be obtained without charge from the Scheme Administrators at the address given below:

The meetings will be held as follows:

Date: Tuesday, 24 March 1998
Time: 10.30 am
Place: Winter Garden Room
Rihga Royal Hotel
151 West 54th Street
(Between 7th and 6th Avenue)
New York, NEW YORK 10019
USA

Date: Wednesday 15 April 1998
Time: 10.00 am
Place: The Great Hall
Chartered Insurance Institute
20 Aldermanbury
London EC2V 7HY
United Kingdom

Each Scheme Creditor who wishes to attend either of the meetings must complete a registration form and bring it with them to the meeting. All Scheme Creditors will be sent a copy of the double-sided registration form. Further copies of the registration form are available from the Scheme Administrators at the address given below.

A.J. McMahon
R. Smith
Scheme Administrators
KPMG, PO Box 730,
20 Farringdon Street,
London EC4A 4PP,
UNITED KINGDOM

Dated this 23rd day of February 1998.

Net sales for the 4th quarter 1997

Consolidated net sales for the 4th quarter 1997 were FRF 17,965 million compared to 1996 4th quarter, or an increase of 12.9% on a comparable basis.

The main change in the Group's structure is the deconsolidation of Vallourec which occurred on July 1, 1997.

The increase of net sales between the 4th quarter 1996 and the 4th quarter 1997 is mainly due to a significant progression in volumes (Flat Carbon Steels +8.2%, Stainless Steel and Alloys +5.5%, Specialty Steels +17.3%) and to a more favorable evolution in average selling prices (Flat Carbon Steels +4.5%, Stainless Steel and Alloys +5.2%, Specialty Steels -0.9%).

Estimated consolidated net sales for the year 1997 as a whole were FRF 72,001 million, or an increase of 6.7% on a comparable basis.

USINOR

Consolidated net sales for the 4th quarter 1997 were FRF 17,965 million

Investor Relations:
tel.: (33-1) 41 25 98 98
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Internet:
http://www.usinor.com

Financial Times Surveys

Korea

Thursday March 26

For further information please contact:
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FINANCIAL TIMES
No FT, no comment.

The Chase Manhattan Corporation
U.S. $500,000,000
Senior Floating Rate Notes Due 2002

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from February 23, 1998 to May 21, 1998 the Notes will carry an interest rate of 5.675% per annum.
The interest payable on the relevant interest payment date, May 21, 1998 will be U.S. $137.15 per U.S. $10,000 Note and U.S $1,371.46 per U.S. $100,000 Note.

By: The Chase Manhattan Bank
London
February 23, 1998

EUROFIMA

European Company for the Financing of Railroad Rolling Stock

ITL500,000,000,000
Floating Rate Note
due 2006

Notice is hereby given that for the interest period 23 February 1998 to 24 August 1998 the notes will carry an interest rate of 5.51375% per annum. Interest payable on 24 August 1998 will amount to ITL139,502 per ITL5,000,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

MINICAS
U.S. $100,000,000
Secured Floating Rate Notes due 2004

Interest Rate 5.125% p.a. Interest Period February 23, 1998 to August 24, 1998. Interest Payable per US$500,000 Note US$15,482.64

February 23, 1998 London,
By Citibank, N.A. (Corporate Agency and Trust), Agent Bank

NOTICE TO HOLDERS OF
US$72,000,000 0.5% Convertible Bonds due 2004
"Notice of Suspension Period"
of
TAIWAN LITON ELECTRONIC CO LTD
(Incorporated with limited liability in Taiwan, The Republic of China)

NOTICE IS HEREBY GIVEN that pursuant to 6(B)(i) of the Terms and Condition of the Offering Circular, the Conversion Rights shall be suspended from February 20, to the Record Date, 1998.

February 23, 1998, London
Citibank, N.A.
CITIBANK

هكذا من الأصل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Feb 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.8710	-0.0133	610 - 809	20.8989	20.8083	20.907	3.7	20.7708	3.8	20.2677	3.4	102.3
Belgium	(BFr)	61.4928	-0.0266	658 - 198	61.5198	61.3100	61.3118	3.5	60.9103	3.8	59.3907	3.4	101.7
Denmark	(DKr)	11.3601	-0.0041	550 - 652	11.3848	11.3210	11.3284	3.5	11.2587	3.6	11.0089	3.1	104.2
Finland	(FM)	9.0448	-0.0039	364 - 527	9.0527	9.0110	9.0162	3.8	8.9544	4.0	8.7267	3.5	80.4
France	(FFr)	9.9941	-0.0025	902 - 980	10.0083	9.9530	9.9637	3.6	9.8979	3.8	9.6491	3.5	106.0
Germany	(DM)	2.9806	-0.0018	792 - 819	2.9827	2.9692	2.9716	3.8	2.9518	3.9	2.8774	3.5	102.7
Greece	(Dr)	472.023	+1.178	691 - 358	472.689	469.004	475.195	-8.1	482.274	-8.7	506.797	-7.4	64.9
Ireland	(I£)	1.1965	-0.0038	953 - 977	1.1986	1.1953	1.1954	1.1	1.1924	1.4	1.1693	2.3	92.3
Italy	(L)	2939.17	-0.37	705 - 130	2941.30	2928.59	2936.4	1.1	2929.18	1.4	2875.34	2.2	75.2
Luxembourg	(LFr)	61.4928	-0.0266	658 - 198	61.5188	61.3100	61.3118	3.5	60.9103	3.8	59.3907	3.4	101.7
Netherlands	(Fl)	3.3590	-0.0019	576 - 604	3.3604	3.3477	3.3486	3.7	3.326	3.9	3.2418	3.5	1001.0
Norway	(NKr)	12.4226	+0.0069	173 - 282	12.4423	12.3760	12.3966	3.5	12.3102	3.6	12.0486	3.0	96.2
Portugal	(Es)	306.067	-0.225	892 - 242	305.242	304.302	304.466	2.4	302.983	2.7	295.898	3.0	91.3
Spain	(Pta)	252.606	-0.101	357 - 656	252.858	251.550	252.005	2.4	250.771	2.8	245.036	3.0	76.5
Sweden	(SKr)	13.2297	-0.0035	209 - 385	13.2409	13.1736	13.2005	2.6	13.1363	2.8	12.8088	2.4	83.9
Switzerland	(SFr)	2.4035	-0.0035	019 - 050	2.4063	2.3961	2.3913	6.1	2.3652	6.4	2.2528	5.9	108.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	104.9
Ecu	-	1.5069	-0.0016	061 - 077	1.5082	1.5028	1.5032	2.9	1.4958	3.1	1.4824	3.0	-
SDR†	-	1.214070	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6352	+0.0006	346 - 358	1.6387	1.6336	-	-	-	-	-	-	-
Brazil	(R$)	1.8473	+0.0016	466 - 479	1.8503	1.8448	-	-	-	-	-	-	-
Canada	(C$)	2.3229	-0.0069	217 - 240	2.3321	2.3159	2.3182	2.5	2.3084	2.5	2.2747	2.1	83.2
Mexico	(New Peso)	14.0541	+0.0728	416 - 666	14.0866	13.9818	14.1887	-11.5	14.4924	-12.5	15.7989	-12.4	-
USA	($)	1.6361	+0.0012	356 - 366	1.6390	1.6339	1.6338	1.7	1.6287	1.8	1.6089	1.7	108.8
Pacific/Middle East/Africa													
Australia	(A$)	2.4313	+0.0128	296 - 329	2.4371	2.4209	2.4266	2.3	2.4165	2.4	2.3772	2.2	88.4
Hong Kong	(HK$)	12.6716	+0.0069	669 - 763	12.6949	12.6578	12.6642	0.7	12.6919	-0.6	13.0076	-2.7	-
India	(Rs)	63.6975	+0.1427	657 - 292	63.7960	63.6320	-	-	-	-	-	-	-
Israel	(Shk)	5.9080	+0.0066	004 - 155	5.9155	5.9004	-	-	-	-	-	-	-
Japan	(Y)	208.693	+1.974	555 - 830	208.890	206.050	207.578	6.4	205.128	6.8	195.218	6.5	121.9
Malaysia	(M$)	6.1516	+0.0788	335 - 700	6.2337	6.0056	6.1537	-0.4	6.1689	-1.1	6.347	-3.2	-
New Zealand	(NZ$)	2.8314	+0.037	288 - 339	2.8354	2.7989	2.8342	-1.2	2.8405	-1.3	2.8602	-1.0	100.8
Philippines	(Peso)	66.0657	+0.0994	637 - 677	66.8265	65.8878	66.634	-10.3	67.9098	-11.2	74.1307	-12.2	-
Saudi Arabia	(SR)	6.1365	+0.0047	345 - 384	6.1472	6.1283	6.1305	1.2	6.1162	1.3	6.0652	1.2	-
Singapore	(S$)	2.6890	+0.0324	857 - 922	2.7011	2.6587	2.6875	0.6	2.6891	0.0	2.6925	-0.1	-
South Africa	(R)	8.0971	+0.016	921 - 020	8.1050	8.0837	8.1415	-6.6	8.2349	-6.8	8.6001	-6.2	-
South Korea	(Won)	2711.84	-19.18	528 - 839	2810.39	2685.87	-	-	-	-	-	-	-
Taiwan	(T$)	53.6928	+0.1473	559 - 296	53.7674	53.5855	53.6348	1.3	53.5037	1.4	52.9795	1.3	-
Thailand	(Bt)	72.8884	+0.9549	571 - 197	73.5910	72.0060	73.3572	-7.7	74.4329	-8.6	80.0406	-9.8	-

† Rates for Feb 19. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.25	4.847	1.946	4780	5.463	20.20	496.1	410.6	21.51	3.908	1.626	3.778	2.661	339.4	2.450
Denmark	(DKr)	54.13	10	8.798	2.624	1.053	2587	2.957	10.94	268.5	222.3	11.65	2.116	0.880	2.045	1.440	183.7	1.326
France	(FFr)	61.53	11.37	10	2.982	1.197	2941	3.361	12.43	305.2	252.7	13.24	2.405	1.001	2.324	1.637	208.8	1.508
Germany	(DM)	20.63	3.811	3.353	1	0.401	986.1	1.127	4.168	102.3	84.72	4.439	0.806	0.336	0.779	0.549	70.02	0.506
Ireland	(I£)	51.39	9.494	8.353	2.491	1	2456	2.807	10.38	255.0	211.0	11.06	2.009	0.836	1.941	1.367	174.4	1.259
Italy	(L)	2.092	0.387	0.340	0.101	0.041	100	0.114	0.423	10.38	8.591	0.450	0.082	0.034	0.079	0.056	7.100	0.051
Netherlands	(Fl)	18.31	3.382	2.975	0.887	0.356	875.0	1	3.698	90.82	75.17	3.938	0.716	0.298	0.692	0.487	62.13	0.449
Norway	(NKr)	49.50	9.145	8.045	2.399	0.963	2366	2.704	10	245.6	203.3	10.65	1.935	0.805	1.870	1.317	168.0	1.213
Portugal	(Es)	20.16	3.724	3.276	0.977	0.392	963.5	1.101	4.072	100	82.77	4.337	0.788	0.328	0.761	0.536	68.41	0.494
Spain	(Pta)	24.35	4.499	3.958	1.180	0.474	1164	1.330	4.920	120.8	100	5.239	0.952	0.396	0.920	0.648	82.65	0.597
Sweden	(SKr)	46.48	8.587	7.554	2.253	0.904	2222	2.539	9.390	230.6	190.9	10	1.817	0.756	1.756	1.237	157.7	1.139
Switzerland	(SFr)	25.59	4.727	4.156	1.240	0.498	1223	1.398	5.169	126.9	105.1	5.505	1	0.416	0.967	0.681	86.83	0.627
UK	(£)	61.49	11.36	9.994	2.981	1.197	2939	3.359	12.42	305.1	252.5	13.23	2.403	1	2.323	1.636	208.7	1.507
Canada	(C$)	26.47	4.890	4.302	1.283	0.515	1265	1.446	5.348	131.3	108.7	5.695	1.035	0.430	1	0.704	89.84	0.649
USA	($)	37.59	6.943	6.109	1.822	0.731	1796	2.053	7.593	186.5	154.3	8.086	1.469	0.611	1.420	1	127.6	0.921
Japan	(Y)	29.47	5.443	4.789	1.428	0.573	1408	1.610	5.953	146.2	121.0	6.339	1.152	0.479	1.113	0.784	100	0.722
Ecu	-	40.81	7.539	6.633	1.978	0.794	1951	2.229	8.244	202.5	167.6	8.780	1.595	0.664	1.542	1.086	138.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.5512	0.5496	-0.0013	0.5525	0.5487	22,917	76,298
Jun	0.5530	0.5525	-0.0013	0.5534	0.5515	408	4,421
Sep	0.5565	0.5550	-0.0013	0.5565	0.5543	4	1,647

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
1.630	1.61	2.26	2.82	1.04	1.89	2.71
1.640	1.10	1.77	2.36	1.54	2.42	3.25

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

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Jeremy Nelson
Tel: 0171-873-3447
Fax: 0171-873-3062

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Allied Domecq	‡♣N	544xd	2.6	Q24.44	1.6	5,683	24.11	1550
Bulmer (HP)	♣†	412½	13.5	14.82	2.2	217.8	12.1	2005
Burn St Dist	♣	30	—	3.4	0.8	17.8	27.10	1518
Diageo	♣♣N	685xd	8.2	Q18.0	1.8	21,023	29.9	2791
Glenmorangie A	†	825	—	13.42	3.1	112.2	22.12	3257
B	†	912½	—	6.71	3.1	36.5	22.12	3258
Highland	♣	277	−7	8.9	2.4	309.5	1.12	2890
5¼pc Cnv Bds		98	4	Q05¼%	—	48.0	5.1	2823
Kirin Y	$	530½	−2.2	Q24%	—	5,585	25.6	1119
Matthew Clark	♣$†	195xd	0.5	20.0	1.5	172.6	29.12	2153
Merrydown	♣	50½	6.3	3.1	—	5.90	21.7	3352
Seagram C$		£22½	0.3	066c	—	8,319	27.11	—

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Cont.

[illegible]

DISTRIBUTORS

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DIVERSIFIED INDUSTRIALS

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ENGINEERING - Cont.

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FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Scholl	♣†	285	5.9	8.8	2.0	189.5	15.9	2904
Seton Health	♣♣†	593½	−.1	9.1	2.6	387.2	5.1	3492
Shield Diagnostics	♣	855	−6.8	—	—	131.8	—	3828
Sinclair Montrose	♣	217½	−1.1	—	—	38.3	—	2880
Smith & Neph	♣	178	1.7	Q7.03	1.7	1,978	13.10	4043
Tamaris	†	2½	—	0.08	1.4	23.7	15.12	5208
Tepnel Life Scies	♣	58	−6.7	—	—	27.3	—	1489
United Drug IE	♣	387½	—	Q6¼%	3.8	88.9	15.12	1281
Westminster H'care	♣♣†	381½	−3.0	6.85	3.2	252.8	1.9	2984

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

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INVESTMENT TRUSTS - Cont.

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INV TRUSTS SPLIT CAPITAL

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AIM - Cont.

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CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Anglo Am Ind R		£22¼	—	0555c	–	1,781	26.8	–
Barlow	♣	£5½	1.4	0124c	–	1,153	8.12	–
Gold Flds Prop R		120½	-2	085c	1.5	12.3	1.9	–
SA Brews	†	£15¾	1.0	0295c	–	4,612	1.12	4113
Standard Bank		£33¾	7.7	0434c	–	4,808	25.8	–
Tiger Oats		921	-6.0	0154c	ф	1,382	8.12	–
Tongaat-Hulett		752½	—	0142c	ф	738.7	8.12	–

TRADED INDEX SECURITIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
FTSE 100 TRANS		£5808xd	–	–	–	–	24.11	–

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS")

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- †‡ Rule 4.2(a) Insts incorporated non-listed companies.
- ≙ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. ¶ Assumed dividend. § Assumed dividend after scrip issue. ex Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xk ex capital distribution

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FT Share Service

The following changes have been made to the FT Share Information Service. **Additions: Julia Mines** (ExInd), **Marchpole Hldgs** (RetGn). **Deletions: General Host** (American) **Gold Mines Aust, Redaurum** (ExInd), **Lanica Tst** (InvCo), **M&G 2nd Dual Inc, Do Dual Cap, M&G High Inc "I", Second Consolidated Tst, Voyageur European, Do Warrants** (InvTst), **Bulgari SPA** (RetGn), **Ind British Healthcare** (AIM).

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JERSEY (REGULATED)(**)

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Financial Times Surveys

Poland

Wednesday March 25

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FINANCIAL TIMES
No FT, no comment.

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Offshore Funds and Insurances

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	Selling Price	Buying Price	Yield Gross	City-Line
PanEuroLife societe anonyme				
7, Rue de la Chapelle L-1325 Lux				00 352 456730
French Balanced Feb 18	FFr8957.77		-	50225
German/Benelux Feb 18	DM4117.40		-	50226
Global Equities Feb 18	$1083.91		-	50227
UK Secure Gth Feb 18	£940.71		-	60228
US Secure Growth Feb 18	$1576.83		-	53187
Intl Real Estate Feb 18	Ecu1435.42		-	50229
Fund of Funds Feb 18	Ecu1696.52		-	50230
[illegible]	DM1073.41		-	58963
[illegible]	LFr1085.10		-	58965
[illegible]	$1075.17		-	58969
[illegible]	FFr1074.82		-	58964
[illegible]	BFr1901.84		-	-
USD 2004	$981.17		-	58968
Nikkei 225 Index	Ecu10746		-	58970
[illegible]	Ecu10581		-	58966
Swiss Securities	SFr1171.34		-	58967
Premier Life				
1 Rue Emile Bian, Luxembourg			Tx 2809	Tel 4050751
Davenport Chenck £ Fd	£7.280	1.390	-	45918
Matheson £ Pens	£0.990	1.050	-	45921
Matheson $ Pens	$1.010	1.070	-	45922
Argent Bond	£18.480	17.620	-	46311
Argent Equity Gth	£18.020	17.180	-	46312
[illegible]	£2.77	2.78	-	46809
[illegible]	$2.49	2.49	-	45808
OFS Aggressive $	$1.55	1.58	-	48813
OFS Mixed Growth $	$1.93	1.84	-	48812
OFS Dir Balanced Port	$1.58	1.59	-	48810
CH 10	SFr1.84	1.98	-	47415
LX 10	$2.12	2.27	-	47416
Professional Investment Consultants				
Premier Life $	$1.1	1.16	-	49491
Premier Life £	£0.6	0.63	-	47957
PCI Worldwide Opps	£1.330	1.430	-	49492
SPILA Flexible Growth	$1.0870	1.1480	-	51974
Royal Life International				
Royal Court, Athany Rd, Castletown IoM				01624 821212
Pension Growth A	£1.871	2.012	-	45718
Pens Growth (Bonus)	£1.756		-	45719
Royal Life UK Mngd Fd	£2.654	2.854	-	45720
Royal Life Gilt Fd	£2.741	2.948	-	45721
Royal Life UK Eqs Fd	£2.581	2.776	-	45722
Royal Life Euro Fd	£2.799	2.967	-	45724
Ryl Life Intl Gwth Fd	£1.613	1.735	-	45726
YRA Growth Fd	[illegible]	1.379	-	[illegible]
S.A.M. 1	[illegible]	2.087	-	47347
S.A.M. 2	$1.480	1.537	-	47848
S.A.M. 3	£2.411	2.538	-	47849
S.A.M. 4	£1.835	1.935	-	47850

	Selling Price	Buying Price	Yield Gross	City-Line
Swiss Registered Funds				
GAM (CH) Europe	SFr185.30		-	43767
GAM (CH) Mondial	SFr308.30		-	43783
GAM (CH) Pacific	SFr203.35		-	43786
SEC Registered Funds				
GAMerica Capital	$15.07		-	58528
GAM Asian Capital	$5.62		-	58522
GAM Europe	$13.53		-	47981
GAM Global A	$19.69		-	45110
GAM Global D	$19.46		-	49238
GAM International A	$30.26		-	45114
GAM International D	$30.13		-	49246
GAM Japan Capital	$8.86		-	58388
GAM North America	$18.51		-	47882
GAM Pacific Basin A	$9.78		-	45122
GAM Pacific Basin D	$9.70		-	49233

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]		8.50	49146
Yen Bear Sub Fund	$13.50		-	49147
USD Account	$111.93	118.42	5.26	45787
Unlisted Issue Funds *				
JF Far Eastern Wnts Tst	$4.11	4.38	-	48695
[illegible]	[illegible]		-	[illegible]
JF Japan Leveraged	[illegible]	7.91	-	[illegible]
JF Japan Warrant Tst	[illegible]	[illegible]	-	[illegible]
[illegible]	[illegible]	[illegible]	-	[illegible]
[illegible]	[illegible]	[illegible]	-	[illegible]
JF Thailand Capital Gwd	$2.16		-	58589

Only available during special offer periods *
Prices as at February 19

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Company Name ____________

Telephone ____________

Registered charity number 261017

Macmillan cancer relief

	Selling Price	Buying Price	Yield Gross	City-Line
Global Afic Inc				
NAV Feb 16	$941.25		-	51870
Global Convertible Megatrend				
NAV Jan 31	$117.90		-	55690
Global Fund Management S.A.				
GFM Outreach Bond Co Jan 28	$10.70		-	59185
The Global Managed Investec Bond Limited				
Global Growth	$1.195	1.236	0.00	49081
Managed Fd EUO Class	$1.177	1.236	0.00	[illegible]
Managed Fd DEM Class	DM1.193	1.253	0.00	[illegible]
Managed Fd GBP Class	£1.179	1.238	0.00	49082

	Selling Price	Buying Price	Yield Gross	City-Line
Jupiter Asset Management (Asia) Ltd				
Hong Kong Investment Co Ltd	$0.49		-	59947
Philippine Investment Co Ltd	$0.44		-	59956
Jupiter Asset Mngt (Bermuda) Ltd				
Jupiter Hedge	£7.48	1.57	-	59951
Jupiter Tyndall Specialist Fund Ltd				
Brazil Class	$1.39	1.37	-	55752
[illegible]	$0.35	0.28	-	55410
Mexico Class	$1.22	1.29	-	55753
KD Offshore Fund, C.V.				
[illegible]	$57.19		-	50336

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 20 1998								THURSDAY FEBRUARY 19 1998					DOLLAR INDEX		
	US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (73)	205.97	2.9	186.64	166.07	195.08	203.58	-0.3	3.74	208.12	188.74	166.35	197.39	204.77	243.87	190.26	220.09
Austria (23)	197.81	4.6	179.25	159.50	187.38	187.23	6.0	1.74	200.07	181.44	159.91	189.75	189.62	213.59	175.14	183.12
Belgium (36)	277.19	8.9	251.17	223.49	262.53	256.92	10.5	2.68	277.48	251.65	221.78	263.17	257.50	278.53	227.73	230.53
Brazil (30)	233.30	-2.2	211.40	188.10	220.98	484.87	-1.0	1.73	231.50	209.94	185.03	219.56	481.09	322.44	184.94	232.88
Canada (121)	222.28	4.7	201.42	179.22	210.52	228.52	3.8	1.74	220.69	200.15	176.40	209.31	227.74	233.66	178.27	200.59
Denmark (34)	460.07	2.8	416.90	370.95	435.75	434.47	4.3	1.24	460.64	417.75	368.18	436.88	435.50	468.39	348.27	376.09
Finland (28)	338.76	21.6	306.97	273.14	320.85	393.02	23.5	2.09	336.02	304.73	268.57	318.69	390.31	349.43	243.25	260.62
France (79)	253.16	5.8	229.40	204.12	239.78	242.58	7.4	2.21	252.02	228.55	201.43	239.02	241.73	254.82	209.81	216.48
Germany (58)	246.61	7.5	223.47	198.84	233.58	233.58	8.9	1.30	244.87	222.07	195.72	232.24	232.24	247.35	191.91	191.91
Hong Kong, China (66)	340.64	-4.6	308.67	274.65	322.63	338.71	-4.6	4.72	339.34	307.75	271.23	321.84	337.45	580.09	262.93	491.48
Indonesia (27)	49.62	-24.9	44.96	40.01	46.99	281.55	26.4	2.39	53.10	48.15	42.44	50.36	283.39	254.90	27.67	245.38
Ireland (16)	466.77	16.2	422.96	376.35	442.09	480.97	21.2	2.05	461.31	418.36	368.72	437.52	477.24	466.77	321.33	335.85
Italy (54)	131.26	11.6	118.94	105.83	124.32	176.10	13.4	1.36	132.90	120.52	106.22	126.04	178.46	135.83	83.01	90.16
Japan (481)	102.87	8.0	93.22	82.95	97.43	82.95	5.8	0.98	103.53	93.89	82.75	98.19	82.75	141.12	88.52	116.98
Malaysia (107)	216.09	31.4	195.81	174.23	204.66	312.92	27.0	2.32	218.17	197.85	174.37	206.91	312.15	660.85	113.56	655.39
Mexico (29)	1518.41	-15.8	1375.91	1224.27	1438.12	14260.65	-10.3	1.58	1528.71	1386.38	1221.86	1449.87	14293.94	1901.98	1326.16	1409.95
Netherlands (19)	436.68	6.5	395.70	352.08	413.59	409.19	7.8	2.16	434.73	394.25	347.47	412.31	407.88	440.67	330.32	345.04
New Zealand (14)	75.87	-0.7	68.75	61.17	71.85	89.72	-0.2	4.44	77.34	70.14	61.82	73.35	70.20	96.47	71.49	89.05
Norway (38)	300.44	-5.9	272.24	242.24	284.55	309.63	-3.1	2.04	301.05	273.02	240.62	285.52	310.32	374.84	281.62	319.91
Philippines (22)	90.64	14.3	82.14	73.08	85.85	182.40	15.6	1.11	90.57	82.14	72.39	85.90	182.12	207.89	57.54	204.75
Singapore (42)	215.71	-4.2	195.46	173.92	204.30	163.37	-6.5	1.96	217.91	197.63	174.17	206.69	163.18	441.04	144.01	441.04
South Africa (43)	279.26	5.2	253.06	225.17	264.50	302.08	7.0	2.83	279.76	253.71	223.61	265.33	302.25	370.12	227.66	360.04
Spain (33)	316.67	16.5	286.95	255.32	299.92	370.25	18.0	1.89	309.88	281.01	247.66	293.88	362.71	316.67	208.12	213.31
Sweden (49)	504.93	7.5	457.65	407.12	478.24	604.43	9.6	1.80	504.03	457.10	402.86	478.03	603.97	538.94	405.00	432.42
Switzerland (31)	376.64	10.5	341.30	303.68	356.73	343.02	11.3	0.98	373.98	339.14	298.90	354.68	341.34	376.69	245.34	248.65
Thailand (39)	31.96	65.6	28.96	25.77	30.27	55.26	53.2	5.47	31.58	28.64	25.24	29.95	53.93	86.40	13.10	86.36
United Kingdom (213)	365.72	10.2	331.39	294.87	346.38	331.39	10.8	2.98	363.37	329.54	290.44	344.63	329.54	365.72	271.72	280.78
USA (538)	422.44	6.6	382.79	340.61	400.10	422.44	6.6	1.49	420.39	381.25	336.00	398.71	420.39	422.44	299.79	326.34
Americas (818)	382.38	6.2	346.49	308.31	362.16	322.84	6.2	1.51	380.51	345.09	304.13	360.89	321.31	382.38	274.58	298.84
Europe (701)	315.65	9.2	286.03	254.51	298.98	302.37	10.4	2.15	314.02	284.78	250.99	297.82	301.15	316.02	237.94	242.48
Nordic (149)	442.91	7.4	401.34	357.11	419.49	461.30	9.4	1.78	442.03	400.87	353.30	419.23	460.84	484.93	355.77	378.35
Pacific Basin (871)	112.69	6.4	102.12	90.86	106.73	92.08	4.5	1.60	113.38	102.83	90.62	107.54	91.91	158.99	95.32	138.46
Euro-Pacific (1572)	197.34	8.2	178.82	159.11	186.91	171.16	8.3	1.97	197.06	178.72	157.51	186.90	170.60	208.12	172.03	181.79
North America (759)	409.61	6.5	371.17	330.27	387.98	409.32	6.5	1.50	407.59	369.64	325.77	386.57	407.36	409.61	292.34	318.73
Europe Ex. UK (488)	281.97	8.8	255.51	227.35	267.06	279.03	10.1	1.67	280.70	254.57	224.36	266.23	278.16	282.53	213.38	216.69
Pacific Ex. Japan (390)	203.08	1.3	184.02	163.74	192.34	201.73	-0.2	3.87	204.16	185.15	163.18	193.63	201.81	318.98	161.31	317.30
World Ex. US (1795)	200.55	7.6	181.73	161.70	189.95	177.56	7.8	1.96	200.23	181.58	160.04	189.90	176.99	212.89	175.30	185.88
World Ex. UK (2220)	263.20	8.7	238.50	212.21	249.29	239.98	6.7	1.57	262.44	238.00	209.76	248.90	239.06	263.27	211.16	225.71
World Ex. Japan (1952)	356.40	7.0	322.96	287.37	337.56	351.59	7.3	1.82	354.78	321.75	283.57	336.49	350.03	356.40	271.90	289.41
The World Index (2433)	271.86	7.1	246.35	219.20	257.49	248.18	7.2	1.72	270.97	245.74	216.58	257.00	247.17	271.90	216.61	230.43

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Emerging markets: IFC investable indices

PACIFIC

AFRICA

NORTH AMERICA

4 pm close February 20

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
89½	51½	Xerox	1.44	1.7	20	9290	[illegible]	[illegible]	[illegible]	[illegible]
61[illegible]	40½	Xtra Corp x	0.88	1.5	19	242	[illegible]	60	60½	[illegible]
27[illegible]	20¾	Yankee Egy	1.34	5.3	15	37	25[illegible]	25	25[illegible]	[illegible]
58	34⅞	York Int	0.48	1.2	37	1883	41[illegible]	40[illegible]	41[illegible]	[illegible]
11¾	4	Zapata	0.28	2.7	26	245	10[illegible]	10[illegible]	10[illegible]	[illegible]
13[illegible]	6[illegible]	ZenithEl				697	6[illegible]	6[illegible]	6[illegible]	[illegible]
28[illegible]	24½	Zenith Nat	1.00	3.9	16	30	25[illegible]	25[illegible]	25[illegible]	[illegible]
[illegible]	7[illegible]	Zenix Inc x	0.76	9.0		53	[illegible]	[illegible]	[illegible]	
[illegible]	17¾	Zeus x	0.12	0.6	15	147	[illegible]	25[illegible]	25[illegible]	[illegible]
14	10½	ZweigFd	1.24	9.3		312	13[illegible]	13[illegible]	13[illegible]	[illegible]
9[illegible]	8	Zweig Tot x	0.84	8.8		409	9½	9[illegible]	9½	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	8413.94	8375.58	8451.06	8451.06 (18/2/98)	6391.69 (11/4/97)	8451.06 (18/2/98)	41.22 (8/7/32)
Home Bonds	105.21	105.17†	105.27	105.48 (15/1/98)	101.08 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3452.42	3504.61	3534.54	3576.07 (12/2/98)	2222.67 (2/1/97)	3576.07 (12/2/98)	13.23 (8/7/32)
Utilities	270.03	268.54	268.77	272.01 (31/12/97)	209.47 (25/4/97)	272.01 (31/12/97)	10.53 (8/7/32)

DJ Ind. Day's high 8449.07 (8463.26) Low 8291.89 (8327.26) (Theoretical)+
Day's high 8424.40 (8451.81) Low 8318.53 (8369.35) (Actual)+

Standard and Poors	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	1034.21	1028.28	1032.06	1034.21 (20/2/98)	737.01 (2/1/97)	1034.21 (20/2/98)	4.40 (1/6/32)
Industrials¶	1204.88	1197.73	1201.11	1204.88 (20/2/98)	865.42 (11/4/97)	1204.88 (20/2/98)	3.52 (30/6/32)
Financial¶	123.90	123.22	124.11	124.11 (18/2/98)	80.75 (2/1/97)	124.11 (18/2/98)	7.13 (4/9/74)
Others							
NYSE Comp.	537.48	535.01	537.23	537.48 (20/2/98)	389.47 (11/4/97)	537.48 (20/2/98)	4.64 (25/4/42)
Amex Comp	689.19	688.86	686.50	721.90 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	524.20 (16/7/98)
NASDAQ Comp	1728.13	1727.01	1715.73	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	453.89	454.21†	454.89	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/93)

■ RATIOS

	Feb 13	Feb 6	Jan 30	Year ago
Dow Jones Ind. Div. Yield	1.66	1.69	1.74	1.92
	Feb 18	Feb 11	Feb 4	Year ago
S & P Ind. Div. yield	1.40	1.42	1.43	1.72
S & P Ind. P/E ratio	27.24	27.61	27.31	22.84

US DATA

■ MARKET ACTIVITY

● Volume (million)	Feb 20	Feb 19	Feb 18
NYSE	595.726	585.500	605.890
Amex	25.051	24.158	26.831
NASDAQ	755.500	743.734	697.567

NYSE	Feb 20	Feb 19	Feb 18
Issues Traded	3,476	3,445	3,465
Rises	1,565	1,269	1,698
Falls	1,343	1,635	1,181
Unchanged	568	541	586
New Highs	184	171	223
New Lows	16	14	14

■ NYSE TRADING ACTIVITY — Volume : 595,726,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	13,892,000	34⅛	−⅞
Eli Lilly	7,855,900	61¾	+1⅛
Hewlett-Pkrd	4,998,000	64⅞	−¼
Cendant	4,758,300	37¼	+1⅞
Ph Morris	4,405,400	41½	+⅛
Marc Bancorp	4,281,000	58¼	−1¼
Pepsico	4,012,800	35⅛	
AT&T	3,867,300	61⅞	−1⅞
Texas Instr	3,670,300	58⅞	+⅛
Micron Tech	3,659,700	33⅞	

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Ackerley Grp	24½	+3¼	+15.4
Del Webb	31	+2½	+8.3
Cort Busn	39	+2¼	+6.5
AFB Man	35	+2	+6.1
Downs			
Appl Ind Tch	24½	−1½	−5.4
AMR	123⅞	−5⅞	−4.5
Hartford Life	42½	−1⅞	−4.1
UAL	85¼	−3½	−3.5

■ NASDAQ TRADING ACTIVITY — Volume :755,500,000

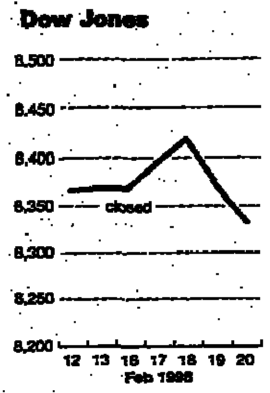
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Ciena Corp	27,521,900	42	−16¼
Intel	24,575,100	91⅞	+1¼
Dell Comp	15,609,800	125⅞	+3⅞
Appl Matl	11,046,800	38¼	−1⅛
Microsoft	10,699,100	156¼	+¼
WorldCom	10,132,200	39	+⅛
Oracle	9,811,800	25½	−⅛
Ascend Com	9,694,200	35½	+½
Cisco Sys	8,494,600	65⅞	+¼
Adaptec	8,194,000	23⅛	−2⅛

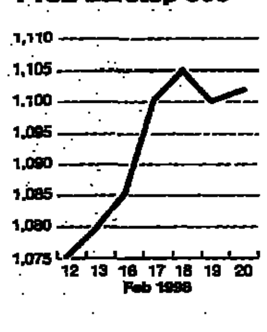
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Dynacq Int	3	+2⅛	+357.1
Doubleclick	28¼	+8¼	+57.3
Deswell	20⅛	+3⅛	+18.0
Nutraceutical	19⅞	+2⅞	+14.3
Downs			
Hirsch Int A	11¼	−10¼	−48.0
PMR	12½	−6⅛	−33.3
Ciena Corp	42	−16½	−27.7
Intersolv	16¼	−3½	−18.2

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	16756.24	16816.48	16813.89	20681.1	14664.4	38915.9	85.25

Day's high 16799.20. Day's low 16501.60

■ TOKYO TRADING ACTIVITY — Volume : 425,000,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Toshoku	58,474,000	5	−4
Np Steel Cp	24,186,000	226	+12
Yamaichi Sec	12,497,000	3	
NKK Corp	7,839,000	148	+2
Mitsubishi Hvy	7,178,000	520	
Sanwa Bk	6,245,000	1243	−70
Np Dry-Chm	4,977,000	908	−104
Pacific Inds	4,636,000	560	−47
Sumo Mti Ind	4,616,000	220	
Sakura Bk	4,419,000	520	+5

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Copal	655	+90	+15.7
Taka-Q	140	+14	+11.1
Fujitsu Gen	630	+62	+11.1
Maruetsu	515	+45	+9.6
Downs			
Np Dry-Chm	935	−104	−10.3
Komatsu El	225	−24	−9.6
Utoc Cp	225	−24	−9.6
Kokusai El	1160	−120	−9.4

FRANCE

	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3262.50	3250.63	3261.71	3281.71	2256.97	3281.71	984.61

Day's high 3262.53. Day's low 3232.81.

■ PARIS TRADING ACTIVITY — Volume : 365,318,970

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Rhn-Plnc A	1,547,048	284.4	−2.3
Fr Telecom	1,807,787	281.7	−2.3
Axa-UAP	1,480,327	585	−24
Usinor	925,964	88.7	+0.95
Paribas	658,777	586	+11
Alcatel Al	590,465	758	+3
Elf Aqtne	544,065	673	−10
Euro Disney	523,960	8.6	−0.25
Bail	456,718	58.95	+2.15
Soc Generale	388,067	892	+27

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Orfevre Chr	1350	+229	+20.4
Grpe Pasquier	33.5	+4.5	+15.5
Intl Metal Srv	79	+7.3	+10.2
Mumm et Cie	998	+80	+8.8
Downs			
Idianova	87.1	−8.8	−9.3
Proxidis	17.95	−1.55	−7.9
Zodiac	1276	−72	−5.3
Calciphos	216	−12	−5.3

GERMANY

	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4602.65	4582.40	4628.83	4628.83	2848.77	4628.83	931.18

Day's high 4614.30 Day's low 4582.72

■ FRANKFURT TRADING ACTIVITY — Volume : 12,540,682

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Dt Telekom	1,488,351	36.2	+0.5
Deutsche Bk	714,824	124.65	−0.1
Commerzbank	696,585	65.65	+0.15
Bayer	654,008	73	+0.15
Siemens	577,405	112.1	−3.1
BASF	549,761	62.2	−0.3
Dresdner Bk	461,027	84.8	+0.4
Veba	440,268	120.8	−0.15
Hoechst	436,273	67.8	+1.3
Lthnsa Rg	377,037	32.5	+0.3

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Ergo Vers	325	+27	+9.1
Singulus Tech	114.2	+8.7	+8.2
Strabag NV	120	+8.5	+7.6
Axa Colnia NV	223	+14	+6.7
Downs			
Holzmann	431	−26	−5.7
Moenus Txt	14	−0.8	−5.4
Marseilles Kln	25.8	−1.4	−5.1
Hornbach	111	−6	−5.1

UK

	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5751.6	5718.5	5723.4	5751.6	4056.6	5751.6	986.9

Day's high 5780.0 Day's low 5705.1.

■ LONDON TRADING ACTIVITY — Volume : 725,900,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Princedle Gp	15,203,940	18½	−½
Shell T & T	14,118,460	415	+1¼
Dana Petro	12,360,310	20½	
Br Telecom	10,534,070	598¼	+2¼
Std Chartrd	10,447,410	764½	+45½
BTR	10,256,870	156	−2½
Utility Cbl	10,077,410	4½	
Singer & Frd	9,574,800	159	+7½
Vodafone	9,492,422	524¼	+8¼
Sears	9,210,164	51½	+¼

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Aviva Pet	18	+4½	+33.3
Liberty	300	+50	+20
Floral Street	65	+10	+18.2
SuperscapeVR	153½	+23½	+18.1
Downs			
Core Grp	118½	−76½	−39.2
Expo	22½	−6	−21.1
A Fisher	26	−6	−18.8
Elec Retail	280	−25	−8.2

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1030.10	1037.50	+6.80	1038.00	1025.10	93,214	367,847
Jun	1045.00	1048.40	+6.80	1048.60	1036.20	1,379	16,971
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	16640.0	16750.0	+120.0	16830.0	16500.0	19,203	191,694
Jun	16570.0	16710.0	+130.0	16760.0	16460.0	891	53,629

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	3250.0	3266.0	+10.0	3273.0	3243.0	11,345	38,160
Mar	3260.5	3274.5	+10.0	3279.5	3254.5	1,473	27,233
■ DAX							
Mar	4601.0	4597.0	−2.5	4623.5	4592.5	14,890	90,965
Jun	4628.5	4629.0	+5.5	4653.0	4627.0	499	49,552

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	2668.00	2669.75	+7.75	2674.00	2662.00	3,206	21,310
Mar	2675.00	2677.00	+7.00	2677.50	2669.50	1,740	13,804
■ SOFFEX							
Feb	6938.0	6982.7	+47.5	6982.5	6935.5	3,653	10,445
Mar	6934.0	6993.0	+54.8	7024.5	6934.0	8,171	15,986

WORLD MARKETS AT A GLANCE

Country	Index	Feb 20	Feb 19	Feb 18	1997/98 High	1997/98 Low	Yield	P/E
[illegible]								

NASDAQ NATIONAL MARKET

4 pm close February 20

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close February 20

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international operations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.25	-0.125	4200	8.125	2.25	Innogenetics	US$38.5	-0.125	130520	38.875	9.875
Algol✦	ITL14650		0	14900	12450	Integr. Surg. Syst.✦	DEM8.6	+0.6	1700	12.1	6.8
Artwork Systems	US$8.75	+0.625	93055	11.125	5.875	Lernout & Hauspie	US$69.75	+0.875	95567	71.625	25
Chemunex✦	FFr15		1620	18	8	Memorex	US$11.0625	+0.875	155540	11.0625	7.1875
City Bird Holding	US$8.125	-0.1875	2900	8.3125	6.8125	Mercer Int'l✦	US$9		0	12.875	8
Debonair Holdings	GBP2.06	+0.35	15000	7.15	1.7	NTL	US$32.75	+0.625	0	32.75	20.5
Dr Solomon's	US$37.375	-0.125	270	38.125	20.375	Opus Int'l	US$20.625	-0.375	12690	21.5	10.375
EDAP TMS	US$6.625	+0.25	1740	9.125	6.375	PixTech✦	US$3.75	+0.125	1500	6.125	2.125
ESAT Telecom	US$20.75	-0.3125	200	22.75	13.25	Royal Olympic	US$13.875	-0.75	4205	18.25	13.875
Esprit Prod. Int	FFr91.15		1000	117	88.83	Schoeller-Bleckmann✦	Sch1425	+5	210	1692	900
Esprit Telecom	US$14.75	+1.375	2900	14.75	4.875	Topcall Int'l✦	Sch7323	+160	1590	7323	3065
Global TeleSystems	US$30	+0.25	190	30.875	24.5	Turbodyne Technol.✦	US$2.73	+0.08	3000	6.25	2.55
Gruppo Formula	ITL19850	+2300	85100	22600	14250						

Prices for 20/2/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)
Annual/interim reports can be obtained for companies with a ✦ marked in this box. For further details please see London Share Service pages.

FT GUIDE TO THE WEEK

MONDAY 23

Foreign ministers meet

The Iraq crisis will dominate today's meeting of European Union foreign ministers in Brussels. Robin Cook, foreign secretary, will seek to reinforce support for a policy calling on President Saddam Hussein to allow unfettered access to UN arms inspectors. Ministers will also discuss whether to lift restrictions on contacts with Iran. The British presidency will also outline its plans for the pan-European conference in London next month which Turkey is likely to boycott.

Hazardous waste ban

Over 100 countries meet in Kuching, Malaysia, to decide on which hazardous wastes are covered by a ban on toxic waste exports from rich to poor countries agreed in 1995. Proposals to be considered at the week-long meeting of members of the Basle convention would ban all exports for any purpose of wastes containing arsenic, lead, mercury, asbestos and dozens of other named chemicals. However, they would allow export of wastes that can be safely recycled such as scrap iron, some electronic goods and textile wastes.

Yeltsin meeting

Japan's foreign minister, Keizo Obuchi, meets Russian president Boris Yeltsin in Moscow to discuss the president's planned unofficial visit to Japan. He will also meet prime minister Viktor Chernomyrdin. They will discuss a new fisheries accord.

UK housing demand

John Prescott, deputy prime minister, will announce the government's policy towards meeting the projected demand for 4.4m new homes in Britain over the next 20 years. He will call for 60 per cent of new homes to be built on derelict urban sites.

Water sharing

The 10 riparian countries of the Nile meet in Kigali, Rwanda, to discuss co-operation in sharing the river's water resources. The week-long meeting, sponsored by the World Meteorological Organisation with other UN and international agencies, is the eighth in a series of conferences under the Nile 2002 programme aimed at producing a strategy for sustainable water resources development. The participants are Egypt, Sudan, Kenya, Uganda, Tanzania, Rwanda, Burundi, Congo, Ethiopia and Eritrea.

Fashion week

London Fashion Week continues to Thursday.

UN appointment

Nominations close for candidates for one of the top United Nations jobs - director-general of the International Labour Organisation - to succeed Michel Hansenne of Belgium. The election will be held by the ILO's governing body in March, though Mr Hansenne's term does not end for another year. Chile's Juan Somavia, now ambassador to the UN in New York, is favourite for the job and has US backing. The only other declared candidate so far is Maria Nieves Roldan-Confesor, former Philippines labour secretary, who is supported by the Association of South East Asian Nations.

Centre of attention: Saddam Hussein and the Iraq crisis will be the main topic at today's meeting of European Union foreign ministers

Botha in court

Former South African president P W Botha is due in court to plead on a contempt charge laid by the Truth Commission.

Football

Argentina v Ukraine international friendly.

Holidays

Brazil, Brunei, Venezuela

FT survey

Review of the Automotive Industry

TUESDAY 24

Spanish summit

German/Spanish summit opens in El Escorial.

Fitness convention

The 1998 European Fitness Convention opens today in Earl's Court, London. It runs to Thursday.

Drugs trends

The International Narcotics Control Board, a semi-judicial United Nations body based in Vienna, publishes its report for 1997 on trends in illicit drug abuse and control around the world today. About five per cent of the world's population are thought to be affected by drug abuse.

Holidays

Brazil, Estonia, Portugal, Venezuela

FT survey

Estonia, Uganda

WEDNESDAY 25

Basketball

European Championship, Belarus v England.

Football

FA Cup 5th round replays in England; Belgium v USA and France v Norway international friendlies.

Holidays

India, Kuwait

FT survey

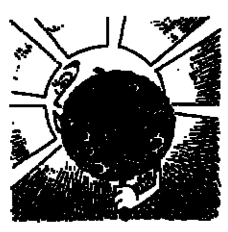
Review of Information Technology

THURSDAY 26

Gold jobs summit

South Africa's National Union of Mineworkers, which has threatened a series of 24-hour strikes in the country's gold mines over job losses, starts a two-day gold summit with employers and government officials at a Johannesburg hotel today. The NUM says 13,000 gold miners have been made redundant this year and a further 60,000 jobs could be lost in the next six months. A total of 300,000 people work in the industry in South Africa, the world's largest gold producer.

Total eclipse



A spectacular solar eclipse races across the earth's surface today. Its 14,000km path passes from the Pacific, over the Galapagos Islands, and hits the American continent in Panama's remote Darien province, where the eclipse will last a little over four minutes. Mercury, Venus, Mars, Jupiter and Saturn should also be visible to the naked eye. The path of the eclipse then continues over northern Colombia and Venezuela and several Caribbean islands, ending after almost three and a half hours over the Atlantic. The event is being billed as the last great solar eclipse of the millennium, though observers in Europe should witness a shorter one in August 1999.

Russian report

The Russian government is scheduled to deliver a long-awaited report on its performance. There has been speculation that the report could serve as a pretext for cabinet changes.

Crucial tests

England and the West Indies begin the fourth cricket Test match at the Bourda Oval in Guyana with the series tied at one all. The Bourda pitch is among the most batsman-friendly in the Caribbean. South Africa and Pakistan battle out the second Test in their series at Durban as do New Zealand and Zimbabwe in Auckland.

Golf

Dubai Desert Classic to Sunday.

Holidays

Kuwait, Mauritius

FRIDAY 27

Abduction ruling

Egyptian court due to issue ruling on case brought against interior minister by wife of former Libyan foreign minister, Mansour Kikhia. It is alleged he was abducted to Tripoli with Egypt's help and then killed.

The numbers crunch

EU national governments will send their final 1997 economic data to the European Commission and the European Monetary Institute, the forerunner of the future central bank. Both institutions will use the figures as benchmarks to evaluate each EU country's fitness to participate in economic and monetary union from 1999. The final reports are due out on March 25. Financial markets expect 11 countries to qualify and enter Emu – all EU members except the UK, Sweden, Denmark and Greece. The data are expected to show that all governments, except Greece, kept their annual 1997 budget deficit below 3 per cent of gross domestic product, the critical threshold set in the Maastricht Treaty. Several countries, including Italy and Belgium, are certain to exceed the debt-to-GDP threshold – set at 60 per cent. But these countries can still qualify if efforts to reduce overall debt levels are regarded as sufficient.

Football policing

UK home secretary Jack Straw hosts EU Presidency seminar on the policing of football.

FT survey

Charity Fund Management

SATURDAY 28

Yamaichi shutdown

Yamaichi Securities, which collapsed in November, closes more branch offices today as part of a voluntary shutdown. More than 2,300 employees in about 50 offices will be dismissed. Yamaichi is scheduled to shut down the rest of its offices by the end of March.

Return of tender

Old 50 pence coin ceases to be legal tender in the UK.

Holidays

Benin

FT survey

Personal Finance: Guide to Peps

SUNDAY 1

Countryside on the march

Thousands of landowners, farmers and villagers will descend on London today for the countryside march from Westminster to Hyde Park to protest against what they see as threats to their way of life. The main focus of their anger is Labour MP Michael Foster's anti-foxhunting bill, due to be debated at a third reading by MPs on Friday. They will also be protesting against plans to give ramblers greater rights of access to open countryside.

Welsh assembly decision

The final decision on where the Welsh assembly will be based is expected any day. The Welsh Office is hoping to make a statement as close to St David's Day – today – as possible. The competition is between sites in Cardiff and Swansea.

Indonesia elects president

The People's Consultative Assembly in Indonesia elects a president and vice-president and begins deliberating over a five-year plan.

Lower Saxony elections

Elections in Lower Saxony, the large northern German state, will determine whether Social Democrat Gerhard Schröder, the local prime minister, can win enough popular support to run against Helmut Kohl, the chancellor, in September's federal elections. A strong performance could make Mr Schröder's bid to stand for the chancellorship unstoppable. The poll is also an important test for Mr Kohl. A good performance by his Christian Democratic Union would mark a revival of fortunes – brightening the chances of his winning a record fifth federal election.

Holidays

Moldova, South Korea

Compiled by Philip Reynolds. Fax: (+44) (0)171 873 3196.

ECONOMIC DIARY

Other economic news

Monday: The depressed state of Japan's economy is likely to be reflected in the latest leading and coincident indicators for December. Forecasters put the leading index at below the critical level of 50 for the second month running.

Tuesday: The west German consumer price index for February is expected to show that inflation has remained at extremely low levels. After an annual rate of 1.1 per cent in January, inflation is forecast to have remained in the same range during February.

Wednesday: Spanish fourth quarter gross domestic product 1997 is forecast to have risen by 3.6 per cent annually, underlining the robust growth of the Spanish economy.

Thursday: A decline in Japan's auto and construction sector is likely to have had an impact on the industrial production data for January. Forecasters are looking for a monthly rise of 2.5 per cent and an annual fall of 3.6 per cent.

Friday: Fourth quarter 1997 GDP data are due from the US, Germany, France and Italy.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Dec leading differential index	30.0%	16.7%
Feb 23	UK	Q4 prov gross domestic product**	0.5%	0.5%
	UK	Q4 prov gross domestic product*	3.1%	3.1%
	US	Jan Treasury budget	$22.5bn	$13.6bn
Tues	Japan	Jan supermarket sales**		-7.0%
Feb 24	Japan	Jan department store sales**		-5.7%
	Germany	Jan producer price index*	0.1%	-0.1%
	Germany	Jan producer price index**	0.9%	1.1%
	France	Dec trade balance†	FFr15.0bn	FFr10.5bn
	US	Jan consumer price index		0.1%
	US	Jan CPI ex-food and energy	0.1%	0.2%
	Canada	Jan leading indicators†	0.3%	-0.3%
	US	Feb consumer confidence	130.0	127.3
	US	Jan real earnings		-0.6%
Weds	France	Jan consumer price index final*	0.1%	0.0%
Feb 25	France	Jan consumer price index final**	1.0%	1.1%
	Canada	Jan department store sales**	3.1%	9.4%
	US	Jan existing home sales	4.31m	4.29m
Thurs	France	Jan household consumption†	1.8%	0.0%
Feb 26	France	Feb industrial survey	24	28
	UK	Dec global visible trade	-£1.5bn	-£1.5bn
	UK	Jan ex-EU visible trade	-£1.1bn	-£1.1bn
	UK	Jan EU-harmonised consmr pri indx		2.0%
	US	Jan durable orders	1.0%	-6.1%
	US	Jan durable shipments		1.5%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	US	Initial claims Feb 21	305k	309k
	US	State benefits Feb 14		2211k
	Canada	Jan industrial production price index*	-0.1%	-0.2%
	Canada	Jan raw materials price index	-2.0%	-4.1%
	US	M1 week ended Feb 16	-$1.6bn	-$16.7bn
	US	M2 week ended Feb 16	$5bn	$2.1bn
	US	M3 week ended Feb 16	$5bn	$11.5bn
	Japan	Jan industrial production†	2.3%	-1.3%
	Japan	Jan retail sales**	-3.4%	-9.8%
Fri	Japan	Jan consumer price index (nation)**	1.9%	1.8%
Feb 27	Germany	Q4 GDP pan-Germany** (Bundesbank)	0.5%	0.8%
	Germany	Q4 GDP pan-Germany** (Stats Office)	2.6%	2.4%
	France	Jan unemployment rate	12.3%	12.2%
	France	Q4 prel gross domestic product**	0.7%	0.9%
	US	Q4 gross domestic product prelim	3.7%	4.3%
	US	Q4 GDP prelim chain price index	1.5%	1.5%
	US	Feb Chicago PMI†	57.0%	57.7%
	US	Feb Michigan sentiment final	110.0	110.1
	US	Feb agriculture prices		1.8%
During the week...				
	Germany	Feb prel cost of living* west	0.4%	0.0%
	Germany	Feb prel cost of living** west	1.2%	1.1%
	Germany	Jan import prices*	-0.2%	-0.5%
	Germany	Jan import prices**	0.8%	2.0%

*month on month, **year on year, ***qtr on qtr, †seasonally adjusted. Statistics: Standard & Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 22.02.98 / Final Prices for Trading on 23.01.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.06	10.73	10.73	0.00
0100	22.80	18.36	18.72	1.34
0130	71.54	82.23	82.59	1.34
0200	71.54	52.23	82.59	1.34
0230	33.43	18.36	18.72	1.34
0300	33.43	35.09	35.45	1.34
0330	33.43	35.09	35.45	1.34
0400	11.06	23.07	23.43	1.34
0430	11.06	23.07	23.43	1.34
0500	22.80	23.07	23.43	1.34
0530	11.10	21.49	21.85	1.34
0600	11.06	21.49	21.86	1.34
0630	11.70	10.74	10.74	0.00
0700	11.10	18.75	19.11	1.34
0730	11.06	18.75	19.11	1.34
0800	11.00	15.48	15.48	0.00
0830	11.00	10.74	10.74	0.00
0900	11.00	15.48	15.48	0.00
0930	11.10	15.48	15.48	0.00
1000	11.10	15.48	15.48	0.00
1030	11.10	21.82	22.18	1.34
1100	32.79	21.82	22.18	1.34
1130	32.79	21.82	22.18	1.34
1200	32.79	21.82	22.18	1.34
1230	32.79	21.82	22.18	1.34
1300	32.79	21.82	22.18	1.34
1330	32.79	21.82	22.18	1.34
1400	18.30	21.82	22.18	1.34
1430	17.34	21.82	22.18	1.34
1500	17.34	10.74	10.74	0.00
1530	17.34	10.74	10.74	0.00
1600	17.34	10.73	10.73	0.00
1630	16.80	10.74	10.74	0.00
1700	19.96	10.74	10.74	0.00
1730	12.06	25.29	25.64	1.34
1800	18.96	33.68	34.04	1.34
1830	39.26	38.25	38.61	1.34
1900	39.26	29.23	29.59	1.34
1930	32.79	25.29	25.64	1.34
2000	32.79	25.83	26.18	1.34
2030	12.06	23.76	24.12	1.34
2100	11.60	25.29	25.64	1.34
2130	11.10	23.76	24.12	1.34
2200	11.00	10.75	10.75	0.00
2230	18.75	22.47	22.83	1.34
2300	19.96	23.76	24.12	1.34
2330	18.85	23.76	24.12	1.34
2400	11.20	10.74	10.74	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.69/MWh becomes 1.669p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 23.02.98 / Final Prices for Trading on 25.01.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	18.75	22.95	23.02	1.30
0100	19.96	22.95	23.02	1.30
0130	19.96	22.95	23.02	1.30
0200	19.96	22.95	23.02	1.30
0230	19.96	22.95	23.02	1.30
0300	19.96	22.95	23.02	1.30
0330	19.96	25.34	25.41	1.30
0400	19.96	22.95	23.02	1.30
0430	19.96	18.68	18.75	1.30
0500	19.96	12.04	12.04	0.00
0530	12.55	16.70	16.70	0.00
0600	10.50	11.65	11.65	0.00
0630	12.56	11.68	11.68	0.00
0700	13.00	16.85	16.85	0.00
0730	28.17	36.28	36.38	1.30
0800	35.40	36.26	36.43	1.30
0830	37.31	57.19	57.39	1.30
0900	37.31	57.31	57.55	1.30
0930	49.77	48.09	48.31	1.30
1000	49.78	48.12	48.35	1.30
1030	49.77	48.09	48.32	1.30
1100	40.86	47.21	47.44	1.30
1130	40.57	48.14	48.38	1.30
1200	49.77	51.62	51.87	1.30
1230	49.77	38.27	38.46	1.30
1300	40.86	38.12	38.29	1.30
1330	37.31	43.80	43.92	1.30
1400	40.78	43.77	43.89	1.30
1430	39.08	43.75	43.86	1.30
1500	39.03	43.73	43.83	1.30
1530	35.40	37.90	38.01	1.30
1600	35.40	38.06	38.21	1.30
1630	35.41	49.13	50.82	1.30
1700	40.33	87.08	88.58	1.30
1730	41.34	140.59	151.07	1.30
1800	47.90	141.78	151.93	1.30
1830	50.12	87.69	93.39	1.30
1900	53.63	66.25	68.94	1.30
1930	53.50	55.62	56.91	1.30
2000	47.51	49.49	49.90	1.30
2030	31.97	36.39	36.52	1.30
2100	40.31	37.83	37.92	1.30
2130	31.97	35.97	36.05	1.30
2200	20.64	35.97	36.04	1.30
2230	27.86	35.78	35.85	1.30
2300	20.00	31.85	31.90	1.30
2330	20.00	16.70	16.70	0.00
2400	12.97	11.75	11.75	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.69/MWh becomes 1.669p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as [illegible]

MONDAY PRIZE CROSSWORD

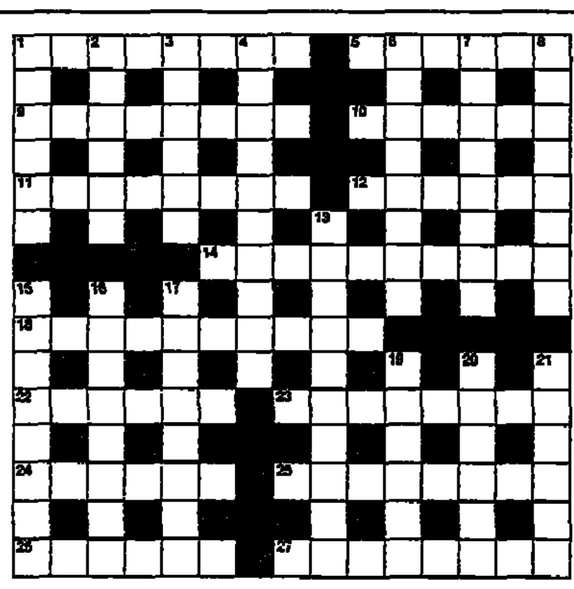
No.9,614 Set by GRIFFIN

ACROSS

1 Army a long time taking prisoners (8)
5 Run over vicar, the first person we turn to! (6)
9 Advocates removing street's fences (8)
10 Man warning about building beginning (6)
11 One with two bearings, for example (8)
12 Put an end to whisky! (6)
14 I walked back to gallery on top (10)
18 Terrible heart tremor shakes people (10)
22 Bug one northern religious group (6)
23 Camp books me into underground room (8)
24 Recover after taking nothing by mouth (6)
25 Something extra, and I do it better (8)
26 Fixed place and said why (6)
27 Fame of pier gets distorted (8)

DOWN

1 Mongrel is a bit shy, Bridget says (6)
2 Spotlight best half of topless dress (6)
3 Thin plate turned up – it's beastly (6)
4 Officer standing in her queue possibly means to pay (10)
6 Selective church rejected new Celtic members (8)
7 Inactive at home I later improved (8)
8 Guards wake me by midmorning (8)
13 Pass supporter taking a bribe (10)
15 Hairy fairy starts looking round before us (8)
16 Where black knight stands trial (8)
17 Hampered by slash found in toboggan (8)
19 Line made using ruler that is on board (6)
20 Some stars, for example, turned up with a car (6)
21 Attitude of old soldiers since I dropped round (6)



Winner of Puzzle No.9,602: D.C. Young, Brighton, East Sussex.

A magnum of Laurent Perrier Rosé champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday March 5, marked Monday Crossword 9,614 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 9. Please allow 28 days for delivery of prizes.

Name.......................................

Address.......................................

Solution 9,602

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CLIENT PROSPECT
H N A   A T L O
OUTCRY BREAKOUT
W E R B E N P T
DISLOYAL ADHERE
E T W L S O   R
ROAN WATERFALLS
  C R N V F O
FLYCATCHER POMP
E   I E R S K U
DARING PENCHANT
E O C D D R L A
RAWBONED REVIEW
A A A E   E K A
LINOTYPE SNEEZY
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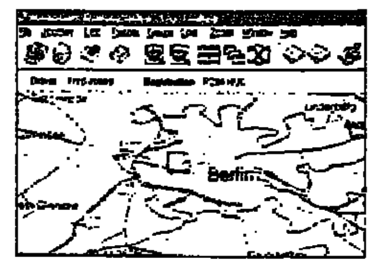
JOTTER PAD

FT auto

inside

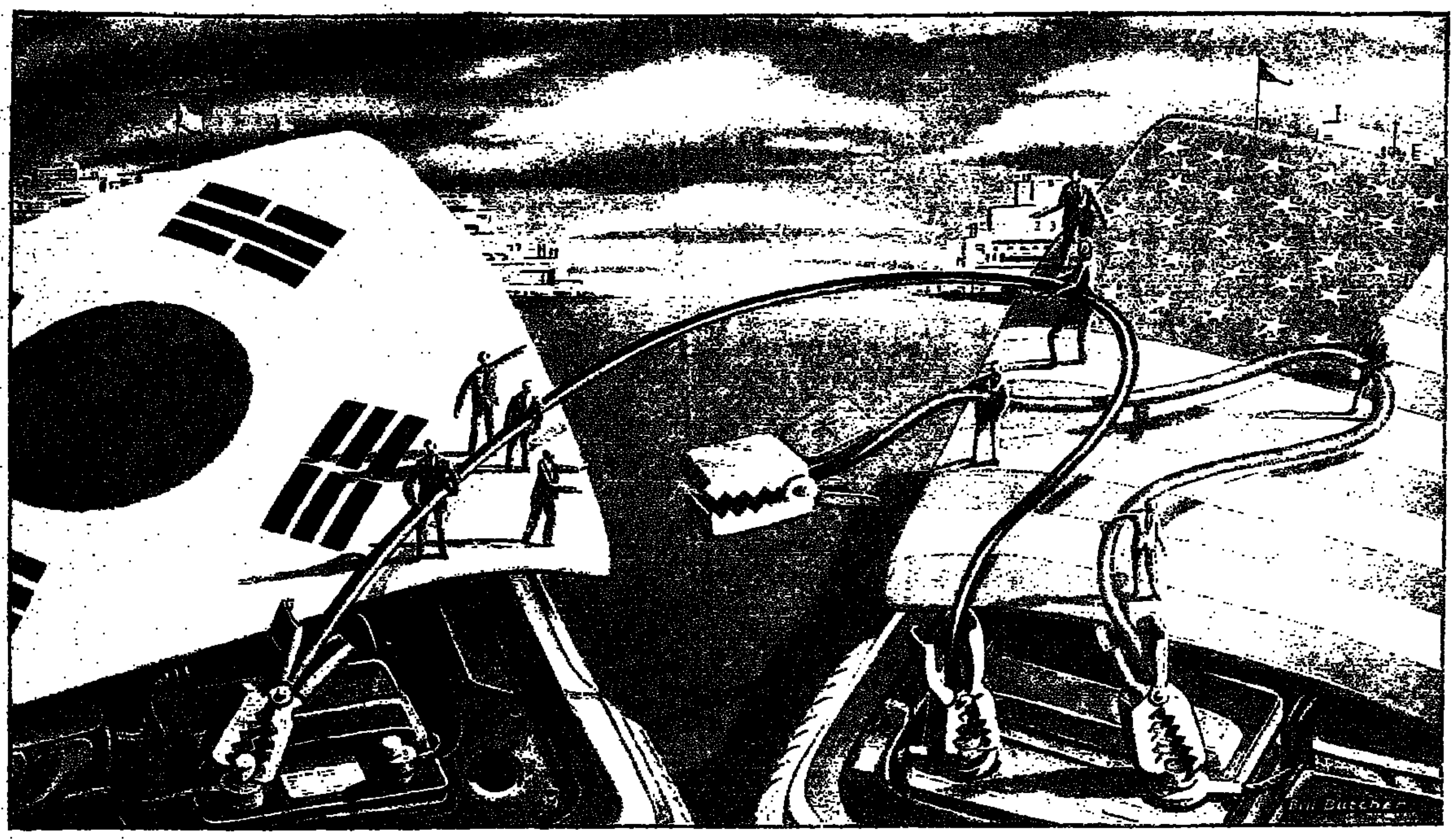
Production editor: Ian MacDonald Design: Philip Hunt



FINANCIAL TIMES REVIEW OF THE AUTOMOTIVE INDUSTRY Monday February 23 1998

South Korean ambitions to be a world force may now depend on investment from abroad, says **Haig Simonian**

Bright hopes are shattered by turmoil



Less than a year ago, first-time visitors to a South Korean carmaker could look forward to an introductory video extolling the company's size, its parent group's activities from cookies to computers, and its founder's wisdom and energy.

The presentation, as predictable as the bland furnishings in the VIP conference room where it would be screened, would also have trumpeted the company's ambitions to become one of the world's top 10 vehicle makers by early next century. The slogans might differ, but the words "vision" and "2000" would be ubiquitous.

Even the strategies for getting there were identical: growth in the (protected) domestic market from ultra-modern new factories on reclaimed land near some convenient waterstead; spiralling exports to established car markets such as Europe and the US; and expansion into new markets, such as India or eastern Europe, usually through local assembly operations to circumvent tariff barriers.

To a large extent, the ambitions came true. After gaining 40 per cent of the home market, Hyundai Motor, Korea's biggest carmaker, revved up its exports while expanding into markets such as India and Turkey with new factories.

Daewoo, its smaller but even more ambitious rival, was more daring: it bought decrepit carmakers in the former communist bloc to gain instant market share.

At home, it worked day and night to develop new products to disguise its humble origins as a joint venture with General Motors until a bitter divorce in 1992. Where others might have launched one new car, Daewoo introduced three at once.

Even Kia, formerly second and now third to Hyundai in the domestic market, did not lack chutzpah. Although not part of an industrial conglomerate like its rivals, the company still thought nothing of helping to establish Indonesia's "national" carmaker or setting up assembly operations in a former dockyard in the Russian enclave of Kaliningrad.

Samsung, the biggest of Korea's *chaebols*, could not be left behind. After being rebuffed in its efforts to buy Kia, it decided to build a showcase car plant of its own.

What a difference a year makes. Samsung executives are probably asking themselves who will buy their new cars, due off the lines any day now. And even senior Daewoo managers may be wondering how long their motor industry operations will retain their independence.

The cause is the collapse in the domestic car market and the impact of Asia's economic turmoil on Korea's heavily indebted manufacturers. After falling by 9 per cent to about 1.5m units last year, Mong-Gyu Chung, chairman of Hyundai Motor, expects registrations to plunge by between 25 per cent "at best" and 50 per cent "at worst" this year.

The market downturn, combined with Korea's domestic credit squeeze and foreign banks' more critical approach to lending, has prompted two questions among foreign carmakers: how severe is the crisis, and what will be its long-term effects for the motor industry?

The answer to both is: considerable. News that Daewoo is negotiating with GM on unspecified co-operation has confirmed the severity of the situation. The two companies, partners until their ill-tempered divorce, have had frosty relations since, exacerbated by their rivalry to buy carmaking operations in Poland and Ukraine.

The tables have turned since Daewoo's success in both the foreign battles. The contents of its memorandum of understanding with GM remain secret. However, observers are speculating feverishly about what the talks may hold.

No one believes Daewoo's agreement to replace Inchcape in servicing GM cars in Korea is the end of the story. A bigger role for Delphi, GM's components operation, is one of the safest bets. J.T. Battenberg, Delphi's boss, has made no secret of his determination to expand in Korea. Daewoo and Delphi have maintained five components joint ventures even after the split in car manufacturing with GM. Delphi may now be interested in taking control of some or all.

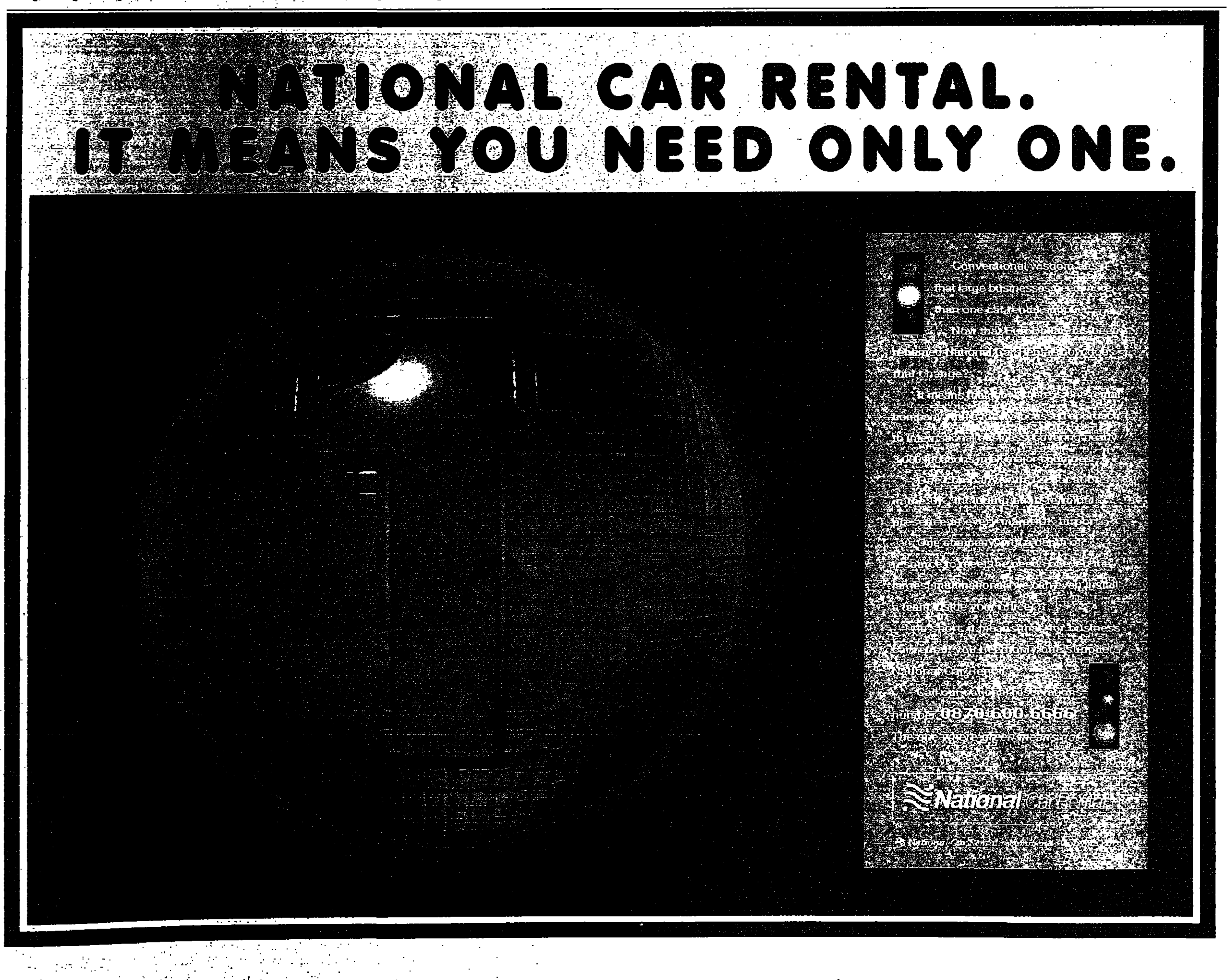
A bigger role for GM in Daewoo's foreign operations is also possible, although unlikely as the US group has developed alternative plans. Since losing out to Daewoo in Poland, for example, GM decided to build a new "lean" plant on a greenfield site. And the appeal of Daewoo's factories in Romania or Uzbekistan is limited.

GM's real aim is to raise its penetration in Asia, where Korea is its weakest link. So the talks with Daewoo will probably involve some form of production agreement to allow GM to use Daewoo's plants to build its own vehicles.

The financial details remain a mystery. Presumably the deal will be for cash. Having worked unsuccessfully with Daewoo in a carmaking joint venture in the past, GM is unlikely to be interested in shares – unless they come with management control.

The GM-Daewoo talks are the most far-reaching, but by no means the only, negotiations under way between western and Korean carmakers. Speculation has centred on Kia, in which Ford owns about 18 per cent directly and through Mazda, the Japanese carmaker it controls.

Analysts have argued Ford might take control, either alone or with Samsung. Such rumours have been denied by Kia, but Samsung, meanwhile, has confirmed it is in talks with Ford, but not about Kia. The situation is now so volatile that even ideas which might once have been considered derisory command attention. Samsung might even swap its new car plant for Hyundai's semiconductor activities. Fanciful? Yes. But in South Korea's present state of affairs, it is a measure of how serious matters have become.



People

Snell shows his takeover paces

It is too tempting not to rename Dick Snell, head of Federal-Mogul, *Schnell*. In barely three months, the former boss of Tenneco Automotive has turned the once-troubled engine components group from a snail into a hare by pulling off two audacious takeovers, more than doubling its turnover.

Suddenly, Mr Snell's target to transform Detroit-based Federal-Mogul into a supplier with sales of \$10bn a year by 2002 no longer looks fanciful. "He's not so much fast as turbo," says a colleague.

Mr Snell, a genial 56-year-old, is more modest. "I knew I had to acquire. I knew I had to do it quickly." The problem for Federal-Mogul, which had slipped into the red after an ill-judged expansion into the aftermarket, was that it either had to grow or be faced with takeover, he believes.

Mr Snell opted quickly for growth. Just 11 months into the job, he launched a surprise bid for T&N, the British engine parts and friction materials group.

The two companies were not strangers: Federal-Mogul and T&N had discussed closer co-operation years back. But no one expected a takeover, and certainly not from Federal-Mogul, the smaller, and apparently weaker, party.

The T&N deal was followed last month with an agreement to buy Fel-Pro, the Chicago-based engine parts and gaskets group. While T&N added \$3bn a year in sales, Fel-Pro has brought \$500m more. Mr Snell's "Big Hairy Audacious Goal" (BHAG) of taking turnover to \$10bn looks entirely within reach.

Mr Snell says the so-called BHAG – set at a meeting of Federal-Mogul's top 150 managers last summer – was never formalised. "Research shows all great companies have over-the-horizon goals." The \$10bn was not a fixed goal; "it just raises your sights. At that point, none of us had any clue how we'd get there".

With sales this year likely to exceed \$5bn (allowing for limited disposals) Mr Snell is, however, already half way.

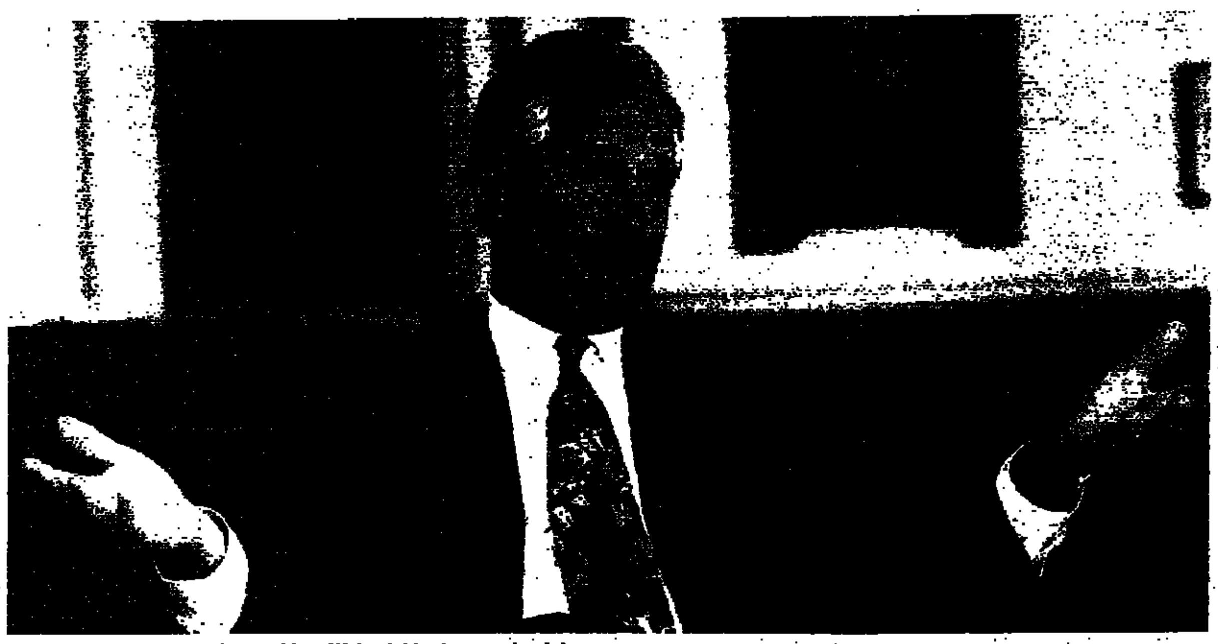
"It's a good first and second step," he says, implying there is plenty more in the pipeline. "We've got a lot cooking. We've laid a base to begin."

He will not reveal where Federal-Mogul would like to strike next.

One of his first moves after reversing the disastrous aftermarket strategy was to create a team to identify potential takeovers. The group came up with "one or two dozen" names which Federal-Mogul contacted. "We didn't get thrown out," he says.

Is the next deal around the corner? Mr Snell stresses the industry's relentless shift towards systems integration from manufacturing individual parts. Federal-Mogul still has some pieces to fill in – such as valve trains – to become an entire engine systems manufacturer.

It also needs to expand some activities, such as sealings, geographically into new markets such as South America and Asia. And T&N has provided a new business in friction. "I find it very appealing. It's a big enough base on which to build."



Dick Snell: 'We've got a lot cooking. We've laid a base to begin' Photo: Brendan Corr

Mr Snell recalls the cracking pace set at Tenneco Automotive, where he masterminded roughly one takeover a month. That may be harder now: Federal-Mogul is both smaller and poorer – especially after spending \$2.9bn on T&N and \$720 on Fel-Pro.

However, Mr Snell reckons he should soon be able to finance another deal. So far, Federal-Mogul's takeovers have been bankrolled by stock and debt. The legal niceties meant it could not issue more shares in the US until the T&N deal was formally closed. Once that is out of the way, Federal-Mogul will probably issue between \$400m and \$600m in new equity, probably around May.

"We'll do a common stock offering to get the balance sheet back in order. That will leave us with manageable levels of debt to go forward." The aim is "to get enough equity out there to please the banks, rating agencies and bondholders, without diluting shareholders too much".

And what of the future? "We've begun a consolidation trend in the powertrain and sealings area." Potential targets, worried that rationalisation is now inevitable, have become much more amenable to talks.

Haig Simonian

Mr BMW makes a doughty debut

Europe's carmakers have a new champion in Bernd Pischetsrieder, the genial chairman of Germany's BMW, who took over as president of the European Automobile Manufacturers' Association at the beginning of the year, writes Haig Simonian.

As one of the continent's relatively few manufacturers to own car companies in more than one EU country – BMW also has Britain's Rover under its belt – Mr Pischetsrieder is arguably better placed than most counterparts to be the figurehead for Europe's motor industry.

At his debut in Brussels, Mr Pischetsrieder's performance suggested he should be a doughty representative for the industry.

Recognising the inexorable pace of consolidation among carmakers, he emphasised European manufacturers would continue to command a seat at the top table.

But, like Alex Trotman, Ford's chairman on the other side of the Atlantic, Mr Pischetsrieder called for greater harmonisation of international technical rules and standards to avoid costly duplication. "What we now need is a globalisation of technical requirements and a worldwide commitment to unify rules and technical standards in order to avoid a waste of money and resources," he argued.

Trade and the environment were his other main themes. Mr Pischetsrieder echoed, albeit more loudly, the view of Louis Schweitzer, the Renault chairman and his predecessor at the association, that the "gentlemen's agreement" limiting Japanese car exports to Europe would not be extended.

He also seemed relatively relaxed about the big competitive edge Asian carmakers have gained following the sharp currency depreciations in the region. Japanese and Korean manufacturers would try to benefit with low-priced exports to Europe, "just as BMW, for example, did in the US".

Mr Pischetsrieder's position on environmental issues – always at the forefront in Green-minded Germany – stood out for its practicality.

While steering well away from the sometimes vehement criticisms of the environmental movement made by some predecessors, Mr Pischetsrieder was clearly no pushover for the Greens.

BBA's thwarted Quarta will not be an idle man

Remember Bob Quarta? For a week or so in 1996 the chief executive of Britain's BBA industrial group was in every business supplement after airing ambitions to buy Lucas, the much bigger UK components group, writes Haig Simonian.

Mr Quarta has slipped to the sidelines since the proposal, which left many institutional investors uneasy, was dropped and Lucas's transatlantic merger with Varity went ahead. The rest, as they say, is history.

But Mr Quarta has not been idle since being thwarted.

Buying Lucas would have given BBA just the sort of partner it may need to find a long-term future for its friction business.

BBA is the world's second-biggest maker of friction products, such as brake pads. Internationally, it trails Allied Signal of the US, while in Europe it is already top dog.

The problem, though, is that as automotive components move inexorably towards systems integration, a maker of friction products, no matter how big, looks exposed.

For most observers, items like disc brake pads are just commodities installed in more complex systems involving hydraulics or electronics. BBA makes plenty of pads but is absent from any of the control mechanisms that operate them.

For Mr Quarta, a 48-year-old Italo-American, friction products are much more. "Friction isn't a commodity. It's a Tier 1 operation: original equipment manufacturers stipulate which brand they'll use."

His theme is focus. Since taking the reins at BBA in 1993 he has divested a number of businesses – notably clutches – on the grounds they could not compete internationally as the motor industry consolidated.

"We didn't see the ability to develop that into a global business," he says.

Friction, by contrast, has already reached critical mass. BBA ranks second to Allied Signal worldwide, while in Europe it is number one. Friction products should account for about 30 per cent of BBA's estimated £1.2bn sales in 1997.

Mr Quarta's aim is to expand its US business to match its strengths in Europe. BBA's previous management had already commissioned a state-of-the-art factory in Virginia to chase new opportunities.

But while they had recognised the need to be in the world's biggest vehicles market, they had not won any business there. "They built on spec," he says.

That has changed thanks to Mr Quarta's contacts (he formerly ran part of another British conglomerate, BTR). The unexpected emergence of quality problems at some local competitors helped, as US carmakers were willing to entertain a pitch from an outsider. BBA's US offshoot is now on target for annual sales of \$100m by 2000.

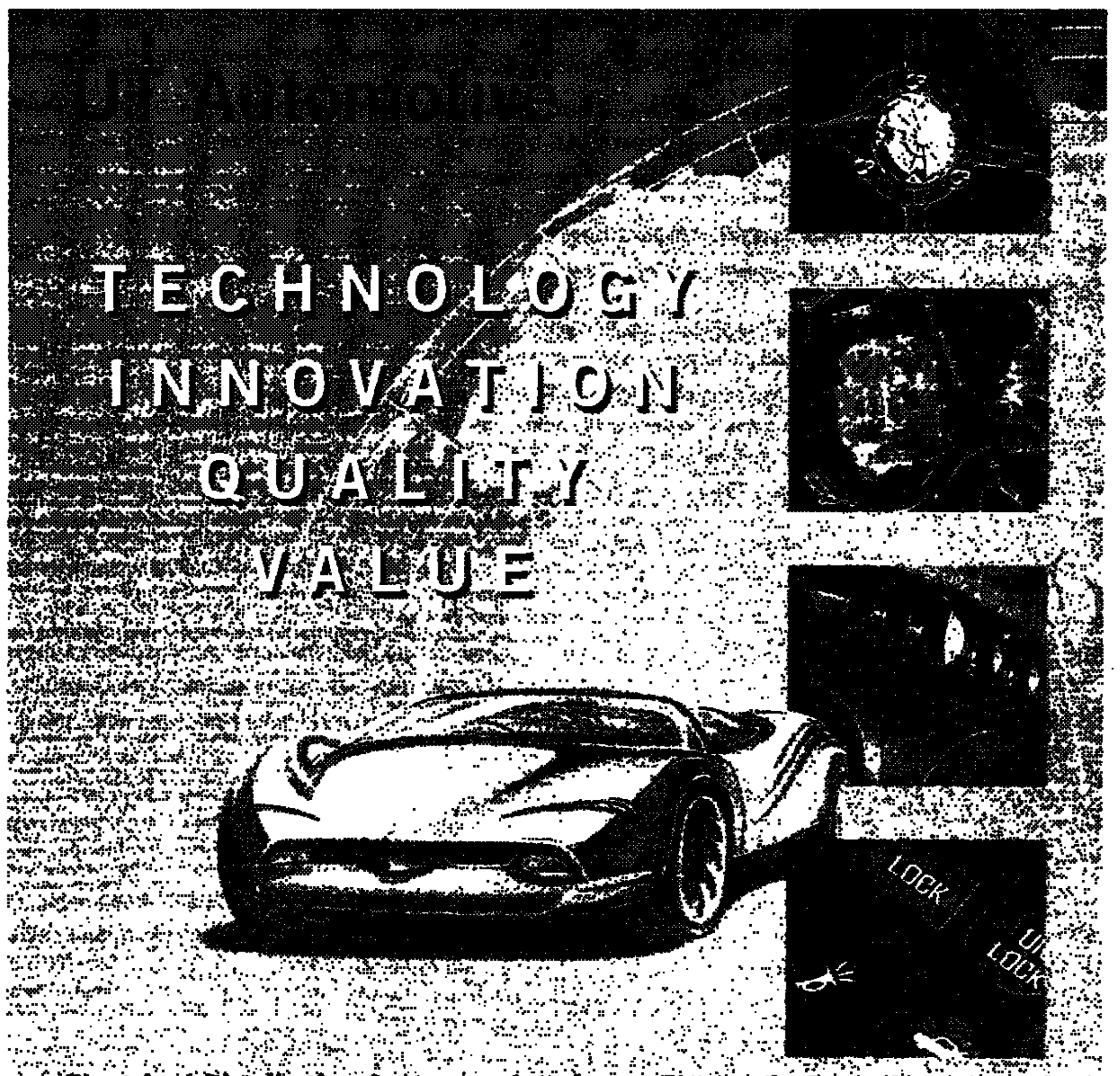
But growing the US business and developing operations in South American and Asia does not remove the more fundamental question. Are friction products for the motor industry a long-term business for BBA? By just making brake pads, it risks isolation as the industry moves towards greater integration.

Mr Quarta acknowledges the trend. However, he notes that LucasVarity, Bosch and ITT – the world's three main braking groups – have so far adopted differing approaches to integrating friction products in their systems.

His priority is to fill any geographical gaps in BBA's coverage, giving it a stronger position in any negotiations that might take place. "I want a seat at the table in any discussions with the vehicle makers," he says.

What does that say about BBA's commitment? Buying a brakemaker is out: Lucas has gone and the other players are far too big. A sale or joint venture (through merging BBA's friction activities with a braking group) seem the only options.

"We think it would be premature to sell at the moment as there's still more value to extract," he says.



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Folz gets down to business

Jacques Calvet he is not. Compared with the showmanship of his inimitable predecessor, Jean-Martin Folz, recently installed as president of French automotive Peugeot-Citroën, group, seems positively low key, writes David Owen.

But, after a quiet start, Mr Folz, 51, has set about putting his stamp on his half of the hard-pressed French car industry with a vengeance in recent weeks.

This process began in January when the carmaker unveiled a sweeping reorganisation designed to cut costs and revitalise its two main brands. At the heart of the plans is a reconfiguration of assembly plants, most of which are dedicated to one marque or the other. In spite of the far-reaching consequences, Mr Folz typically described the move as "an evolution that is starting" rather than a revolution.

He followed this up with a trip to Brazil to sign an agreement to build a new 100,000-unit production plant that will be vital to the group's goal of selling a substantially higher proportion of its cars outside Europe.

Finally, he had the gumption to conduct a substantial cleaning up exercise – dubbed "opération vérité" – on the company's accounts. The associated one-off charges have pushed the group deep into the red for 1997.

A reputedly indefatiguable worker who oozes enthusiasm for the industrial side of his new responsibilities, Mr Folz seems exactly the type of hands-on, nitty-gritty manager Peugeot-Citroën needs at present as it seeks to improve inadequate operating margins in the face of intensifying competition.

What is not yet clear is whether he will develop Mr Calvet's unmistakable leader's aura. He will probably need it if he has ambitions for a long reign.

New and updated

Rolls set to be show-stoppers

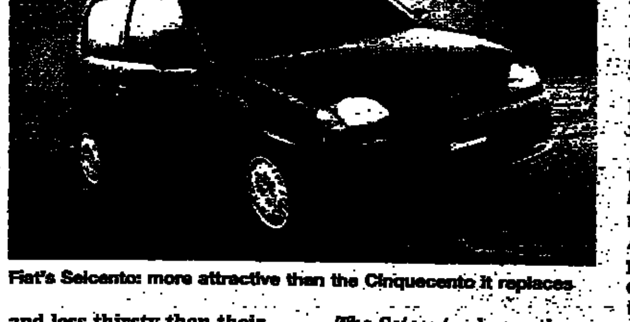
The biggest draw at Geneva's motor show next month will not be mass market models, such as the new Astra from General Motors's European subsidiaries, but a car sold in infinitely fewer numbers.

After 18 years with barely a change, Rolls-Royce Motor Cars will unveil its new Rolls-Royce and Bentley saloons.

It is every schoolboy's dream to sit in a Rolls-Royce at a motor show. However, these newcomers will elicit very serious interest in view of last November's decision by the Vickers parent company to put Rolls-Royce up for sale. Analysts will be running a rule over the cars to gauge their profit potential for Rolls-Royce's future owner. Some may reconsider their view that the company is BMW's for the asking: the V8 and V12 engines and other key components are all coming from the German group.

Most visitors to the Geneva show, however, will simply be curious to see what the new models, likely to cost more than the £111,000 base level for the current range, look like.

The few 'spy' photographs to have emerged suggest the new cars are lighter, sleeker and less thirsty than their predecessors. Their styling echoes classic Rolls-Royce themes – rather lost on the current models – of rounded headlights and vertical front indicators, reminiscent of the penultimate range. Meanwhile, the sweeping rear harks back to even earlier models. First driving impressions should appear at the end of this month.



Fiat's Seicento: more attractive than the Cinquecento it replaces

Fiat fanfare

Fiat's new Seicento could hardly be more different. The successor to the Polish-built and highly popular Cinquecento will cost a fraction of the new Rolls-Royce or Bentley, and could probably almost fit in the boot.

The Seicento shares the same platform but is more rounded than the attractive but boxy Cinquecento. The interior has been updated, notably the archaic dashboard. With an international launch following hard on the heels of the Geneva show, the first road tests should be published around mid-March.

Future Fords

Meanwhile, Ford is expected to try to steal some of the Astra's thunder by giving a taste of its next-generation Escort, due in October.

The company may try to whet customers' fancy by exhibiting a lightly-disguised "concept" car based on the new Escort. Some observers reckon Ford may go so far as to display a version of the car itself, just as GM did with the Astra in an attempt to thwart rival Volkswagen's new Golf launch at the Frankfurt motor show last September.

Geneva may also prove the venue where Ford will finally say whether it will retain the Escort name. After hinting Escort had passed its "sell-by date", the company's latest word is that it may be safer to keep the name after all.

Ford will also use the Geneva show to flesh out its plans to launch its up-market Lincoln brand in Europe. The company is expected to announce it will start selling Lincoln's new LS6 and LS8 six and eight-cylinder models in Europe next year.

What is definite is that Ford's stand will feature the stylish new Cougar coupe in pride of place. Revealed at Detroit as a Mercury model, the US built Cougar will be sold in Europe as a Ford and will be all but identical to the US version bar some minor styling tweaks, such as less bulbous bumpers.

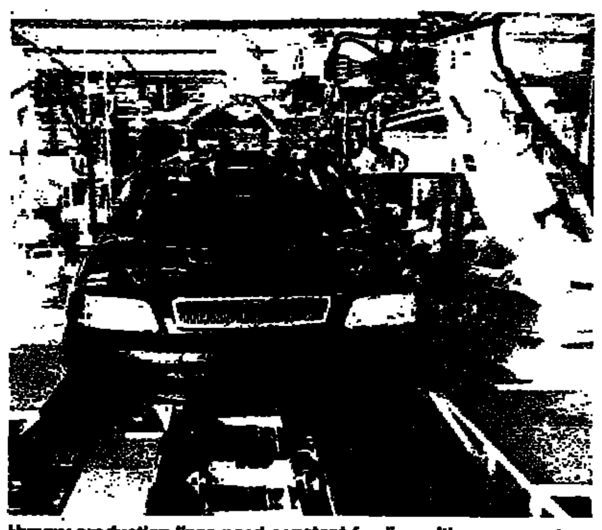
Haig Simonian

There have been many changes in the relationship between carmakers and their suppliers in recent years. On this and following pages, FT correspondents around the world report on the state of the auto components sector

Taking shape: Recent components sector deals

Date	Acquirer	Target	Price
Jan 1998	Federal-Mogul (US) (engine parts)	[illegible]	$720m
Jan 1998	Magna Intl (Canada) (chassis parts, seats)	Steyr-Daimler-Puch (Austria) [illegible]	n/a
Jan 1998	Textron (US) (diversified components)	[illegible]	[illegible]
Jan 1998	LucasVarity (UK-US) (diversified components)	[illegible]	[illegible]
Dec 1997	ECIA (France) (seating, interiors)	Bertrand Faure (France) [illegible]	[illegible]
Dec 1997	MascoTech (US) (drivetrain products)	[illegible]	[illegible]
Dec 1997	Caterpillar (US) (diesel engines)	Perkins (UK) [illegible]	$1.33bn
Oct 1997	Mannesmann (Germany) (diversified components)	Philips [illegible]	[illegible]
Oct 1997	Federal-Mogul (US) (engine bearings)	T&N (UK) [illegible]	[illegible]

■ In February 1998 [illegible] US components [illegible] made a hostile $3bn bid for Echlin, a similar US manufacturer



Hungry production lines need constant feeding with components

Carmakers are feeling uneasy

The pendulum may be swinging in the component makers' favour. John Griffiths reports

The world's leading carmakers are now wondering seriously if they have opened the automotive equivalent of Pandora's box.

They have sought to cut costs, shorten new product lead times and generally make life easier for themselves by devolving to suppliers much of the burden of designing, developing and manufacturing entire component systems – such as dashboard modules or axle assemblies – which the carmakers can then install quickly and simply on the production line.

They have asked suppliers to follow them down the path to globalisation and set up components supply operations wherever in the world the carmakers need or wish.

Spurred by the duly promised rewards – of bigger, long-term orders and potential rivals struck off the carmakers' supplier lists – the main suppliers in the components industry have responded enthusiastically.

Through acquisitions and mergers they have been busily reshaping the components supply chain to the point where, in some key component sectors such as braking systems, there are now only a handful of suppliers with the required global and technological capabilities.

The combined sales of the components sector, now around $250bn annually, are growing much more rapidly than the turnover of the vehicle makers themselves, and on current trends will continue to do so.

In the past few months, the carmakers' unease about this scenario has been heightened by another trend which has been emerging with growing clarity. Where rationalisation initially involved companies engaged in essentially the same business, now the leading companies are starting to forge alliances across traditional sector boundaries.

As an example, at this week's annual Society of Automotive Engineers (SAE) gathering in Detroit, Breed Technologies of the US, one of the bigger concerns in the vehicle safety systems sector – notably seatbelts and airbags – will flesh out the details of a joint venture with the automotive operations of Siemens, the German electronics group.

The venture provides for Breed to pool its physical restraint system know-how with Siemens' expertise in advanced sensor electronics.

Subject to final approvals, the US components group Federal-Mogul is acquiring the UK's T&N, gaining the British group's expertise in a number of fields in which Federal-Mogul's own know-how was lacking. Varity Corporation of the US has sold its Perkins diesel engines subsidiary to Caterpillar to create the world's biggest single diesel engine supplier – and one which has given Caterpillar, for the first time, a presence in virtually every engine size sector in the global market.

The diminishing proportion of revenue from a finished car going to the carmaker is illustrated well by electronics systems. Their use has already risen to exceed in value the steel content of the average car, and is still growing by around 20 per cent per year.

As Ford recently pointed out, some cars – including its mass market Taurus model – already contain more computing power than was deployed in the US moon landings.

The future added-value deriving from advanced transport communications technology will be much higher yet, as installation becomes widespread of high-value systems such as satellite navigation, automatic crash location and emergency signal sending, collision-avoidance radar and even on-board internet.

Large informational technology companies such as Microsoft and Intel are also seeking a slice of the automotive cake and are now adapting games, internet and other technologies for integrating into car systems.

While the car groups ponder the nature of their relations with suppliers the components groups themselves are finding occasional cause also for disillusion.

Vehicle producers make much of the savings they say they can achieve by using a much smaller number of vehicle platforms – the basic engineering structure of a car – than in the past. Such platforms are intended to be for global use, further saving costs.

The idea that global vehicle platforms mean global components, with all the implied benefits of scale economies and cost-savings in research and development, has turned out to be a rather simplistic one, however.

Market tastes, varying governmental legislation in areas such as safety and emissions and other factors are still requiring vehicle makers to differentiate their platforms between regions, with substantial knock-on effects for the components supply industry, says Kevin Mann, of consulting group CSM Europe.

When it comes to forecasting market demand, even for companies such as Ford "projecting how many consumers will pay for a given feature makes meteorology look like an exact science", says Mr Mann.

Some 18 months ago, for example, Ford announced that it would fit side airbags to almost all its vehicles, encouraging General Motor and Chrysler to follow suit.

Lear, Johnson Controls and other big suppliers of seats thus started developing seat programmes engineering in side airbags – complex programmes involving considerable investment. Then came the "deadly" airbags furore in North America and what looks like a retreat by all three on side airbags in that continent.

But in Europe, where airbag specifications differ, there has been no such controversy, and fitments of side airbag seats are rising rapidly. So much for "global" seating systems.

As Mr Mann points out, even something as seemingly simple as a manual seat adjustment system cannot be assumed as a global item. Americans prefer a lever actuator for the seat recliner; Europeans prefer a rotating knob. Regional taste, in short, has a direct impact on design requirements for the same platform, even though installation of the feature is 100 per cent for both regions.

It is the prospect of fewer, increasingly powerful – and potentially less biddable – component suppliers accounting for an ever greater proportion of the value of a finished car that has the carmakers themselves so worried.

When big new contracts are awarded in future, or come up for renewal, the component producers' tail may soon have the muscle to try wagging the carmakers' dog.

If it does, the whole industry could face another structural re-think.

Potential for more M&A still exists

Car assembly plants and their suppliers are forging ever-closer links, says Haig Simonian

EUROPE

The dominant themes in the components sector, of consolidation and systems integration, which have been evident globally, have been particularly marked in Europe, home to many of the world's biggest suppliers.

Mergers and acquisitions have continued briskly, with the pace held back only by the decreasing number of takeover candidates and by rising prices for those that remain. However, investment bankers say there is still considerable potential, particularly among medium-sized, family-owned companies in Germany and Italy where first-generation founders are now giving way to second-generation inheritors, who may not be as tied to continued ownership as their parents.

The shift to greater systems integration has been evident particularly in new models or restructured factories. The Smart, the two-seat urban vehicle built by the Micro Compact Car joint venture between Mercedes-Benz and Switzerland's SMH watches group, has taken integration and the use of modules to new heights at its greenfield plant in eastern France.

Even with less radical models, Europe's suppliers and vehicle makers have been working together more closely. Fiat's factory at Melfi, in southern Italy, was one of the first "new-generation" plants of the 1990s to bring suppliers on site to streamline logistics and cut costs. Since then, other carmakers have restructured their operations – space permitting – to make room for components companies on site.

Ford's Spanish plant in Valencia, which is surrounded by plenty of unbuilt land, now has a growing supplier park adjacent to it, with direct links by overhead conveyors. The creation of the park went hand in hand with the development of Ford's small Ka hatchback, underlining the fact that the pace of change is usually linked to the introduction of new vehicles designed from the outset to incorporate modules built by suppliers.

At Valencia, the adjacent component companies provide various modules, including the welded front end assembly, which would have normally been made by Ford internally.

Even bastions of tradition, such as Mercedes-Benz, where outsourcing is additionally hampered by restrictive German labour arrangements, have been moving in the same direction. Mercedes-Benz's Rastatt plant in southern Germany, heavily restructured for the new A Class car, now also has a small supplier park.

But the most intriguing development in Europe – and the one with potentially the greatest long-term significance for the motor industry worldwide – is one about which the details are still scarce.

Late last year, Magna International, the highly-acquisitive Canadian body and interiors group, bought a controlling stake in Austria's Steyr-Daimler-Puch group. SDP, a complex company, has a variety of activities. These include building vehicles under contract for Mercedes-Benz and Chrysler, and product design, development and engineering through its Steyr-Daimler-Puch Fahrzeugtechnik subsidiary. The deal is believed to mark the first time a supplier has moved so firmly into activities normally associated with a carmaker and, for some observers, marks the beginning of a trend.

Others have argued the SDP deal was a one-off: Magna's founder, Frank Stronach, is Austrian and has retained close links with his mother country. And Magna works closely with Chrysler in many locations, suggesting the SDP purchase would not have happened without the US group's tacit knowledge and blessing. It should not, therefore, be seen as indicating a threat to the role of carmakers from suppliers, the contrarian view argues.

Which is right? It is too early to assess the long-term impact of the SDP deal until Magna is more forthcoming about its future plans. But for anyone looking for evidence that the pendulum in the relationship between carmakers and suppliers is swinging in the latter's direction, this is probably it.

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CASE STUDY Bosch

Gently with the brakes...

Two years ago, at the SAE conference in Detroit, Hermann Scholl, chairman of Robert Bosch, astonished delegates by buying Allied Signal's light braking activities. Amid all the talk, here was systems integration and globalisation in action. Has he anything up his sleeve this time round?

"We are in segments which all show tremendous growth," says the tall, 62-year-old Swabian, who has been with the company for 26 years, the last 4½ as chairman. While monitoring the Asian front closely for opportunistic deals in the wake of economic turmoil, he implies all is otherwise quiet.

That does not mean Mr Scholl has lost faith in rationalisation among supply companies. As the world's second-biggest independent car parts group, with automotive sales of DM28.7bn, Bosch counts among the pacesetters in the industry.

But for Mr Scholl, the future involves further concentration without eliminating smaller specialists. "There is a trend towards concentration," he says. "But I believe that for some products even relatively small companies will remain Tier 1 suppliers."

Geography and technology will continue to dictate the pace of change. Globalisation among vehicle manufacturers means successful suppliers have to follow.

"You've got to be in Europe, North and South America and key parts of Asia, otherwise you're not regarded as a major supplier," he says.

Technological complexity has upped the stakes: Mr Scholl is convinced modules and systems will become paramount. "We have a growing trend towards modules."

But he reckons the moves towards systems will tend to be slow and steady rather than characterised by abrupt takeover-induced leaps. "Under normal conditions, we prefer to grow on our own but only in very specific cases through."

That may sound a little odd from the company which triggered the latest consolidation wave in braking. Buying Allied Signal's Bendix braking side expanded Bosch's US coverage overnight and transformed it from a company best known for electronic braking to one providing foundation brakes as well.

Allied Signal's operations have now been incorporated in a restructured Bosch braking division, established at the beginning of last year. With sales of DM6.4bn in 1997, braking is now the biggest part of Bosch's automotive operations – itself the largest single element of the group's main business.

Although there may be no more big acquisitions forthcoming in braking, Mr Scholl remains confident about growth prospects.

His focus is on electronic traction control systems, which he believes are poised to break into the volume market just as ABS emerged from hydraulic braking about a decade ago.

Bosch is the leader in this field. Its Electronic Stability Programme uses sensors to detect untoward lateral movements in a car's progress – say, at the beginning of a spin – and applies the brakes selectively to restore stability. Restricted at the outset to Mercedes-Benz, Audi and BMW luxury models, the system, developed over the past eight years, looks set to reach the mass market soon.

The reason is the unhappy birth of Mercedes-Benz's new A Class car, which embarrassingly toppled over in the now infamous "elk test" last October. Since then, the car has been extensively re-engineered, with the inclusion of ESP as standard rather than as a pricey option. As drivers become familiar with ESP's capabilities, they will demand it on a much wider variety of models, he believes.

But braking is not the only area where Mr Scholl reckons Bosch's combination of technologies has put it in good stead. He is upbeat about the growing links between in-car entertainment, navigation systems and mobile telephony as their respective technologies start to overlap.

Bosch has already moved quickly off the mark, with the world's first, standard-sized car radio combining a GSM mobile phone. "It makes obvious sense to use installed facilities which are provided for the radio."

The next step will come when real-time traffic information becomes freely available via digital radio. That will then be incorporated into route planning software used together with on-board navigation systems, which Bosch also produces.

Bosch' TravelPilot, one of the two leading on-board navigation brands on the market, is already being fitted as a factory option by a number of carmakers. "What comes next is to link these autonomous systems with traffic data," he says.

But the competition has toughened even for a giant like Bosch after the sale late last year by Philips of its in-car electronics activities to Mannesmann. The deal included Carin, the Philips on-board navigation system and TravelPilot's main competitor.

Philips was a doughty rival, even for Bosch. But with Mannesmann now merging the business with its VDO car electronics subsidiary, which specialises in instruments such as speedometers, the battle for space on the dashboard is likely to grow hotter still.

Haig Simonian

Components

Smaller companies are facing uncertain future

New lines are helping to keep employment levels up, says Scott Shifrel

JAPAN

When Nissan Motor reacted to the Asian financial crisis and Japan's prolonged slump in auto sales by putting pressure on its main supplier of exhaust systems to cut costs, the supplier – Tokyo-based Calsonic – had to react quickly.

But, rather than reduce the workforce, the leading Japanese manufacturer of auto components, with more than Y320bn in worldwide annual sales, decided to shift its workers into new lines, such as the manufacture of integrated transit systems which alert drivers to traffic jams.

It was the sort of strategy that has kept the 60-year-old company, which also manufactures air conditioners, radiators, silencers, air cleaner parts and catalytic converters, ahead of a curve that has seen vehicle sales shrink to 10-year lows in Japan and in Asia, says Tsuneo Maeda, a senior planner with the company. Japan produced 13.5m cars in 1991 but has since seen that number decline.

"We hit the bottom two or three years ago" when the nation produced 10m cars, says Yukio Kutani, director of the Japan Automobile Parts Association's international division.

The decline of vehicle production in Japan – due to market saturation, weak domestic demand and a continuing Asian financial crisis – is well known. But what is less widely recognised is that parts makers which supply large companies such as Toyota, Nissan and Honda have suffered just as much as the carmakers, if not more.

While auto production rose to 11m units last year, most of the increase was the result of export sales boosted by a decline in the value of the yen. Overall, even exports are slowing, having plunged from from a high of 6.7m in 1985 to 3.7m vehicles in 1996, Mr Kutani says.

The slump experienced by Japan's vehicle makers has carried over to the parts industry, whose 1997 sales totalled Y13bn – – down more than 7 per cent from a peak of Y14bn in 1991.

While the industry has seen few bankruptcies, some believe more mergers will occur and new alliances will be formed. The hardest-hit companies will be smaller ones. While the Japan Automobile Parts Association has about 500 members, government estimates suggest there are closer to 5,000 parts companies throughout Japan, many of them very small operations.

Citing moves earlier this decade by Toyota and Ford to raise their stakes respectively in Daihatsu, a small carmaker and Mazda, Peter Boardman, an analyst at UBS Securities, predicts more mergers and acquisitions in the car parts industry will follow. As many as half the nation's parts companies could close or be acquired over the next 20 years, he believes.

That sort of Darwinian economic view would seem to be supported by worldwide trends that saw the number of US parts companies cut from 30,000 in the late 1980s to about 8,000 now, Mr Boardman notes. Ford has predicted the number eventually will drop to 85 worldwide.

The Japanese auto parts industry has already seen some of that shrinking with last summer's acquisition of Zexel, a former Isuzu-affiliated supplier of high-pressure pumps, by the German giant Bosch. In addition, Calsonic recently purchased Tokyo Radiator.

Automakers have also reacted to the economic pressure to add more value at lower cost by allowing their affiliated parts companies to seek business elsewhere, Mr Boardman points out.

Yet economic pressures have also had just the opposite effect, says Enda Clarke, industry analyst at Dresdner Kleinwort Benson in Tokyo.

"Most successful companies have actually strengthened their ties," Mr Clarke says. Automakers need to develop new cars more quickly and keep costs down, so they need to work even closer with the parts companies on whom they depend.

It is true that Isuzu sold its stake in some of its parts suppliers, and there have been some large mergers of other parts companies, but mergers and divestitures will not save money unless workers are let go or other cost savings are found, he notes.

At the same time that they face a need to cut costs and remain competitive, Japanese auto parts makers are under pressure to continue investing in costly R&D to keep up with, if not lead in, fast-paced technological developments. Growing environmental concerns, in particular, are spurring Japanese parts companies to maintain a high level of R&D spending.

In a bid to maintain growth, Japanese auto parts companies are also being forced to expand overseas and seek more business with non-Japanese vehicle makers.

Foreign investment needed

Changes of ownership may provide salvation, writes John Burton

SOUTH KOREA

South Korea's car components industry could become one of the first sectors to fall under foreign ownership as Seoul desperately seeks investments from abroad to rescue the nation from its economic crisis.

Some of the world's biggest car parts producers have entered negotiations with domestic suppliers for possible takeovers. Analysts believe that Korea could emerge as a regional manufacturing base in Asia for foreign component producers.

"The technological level of Korean manufacturers is better than in south-east Asia and they can be acquired cheaply because of their financial problems," says Kang Hun-sok, automotive analyst with ING Barings in Seoul.

Mando Machinery, Korea's biggest car parts supplier, sought bankruptcy protection in December after its parent Halla group collapsed under huge debts.

It recently announced that it was selling its half-stake in Korea Automotive Motor Co (Kamco) to its German joint venture partner, Bosch, for Won50bn as Mando sought to raise capital and improve cash flow. Kamco was established in 1993 to manufacture small motors used in power window systems and air conditioners.

Mando has also put up for sale several of its other car parts plants. Possible investors include Ford Motor and ITT of the US, Sachs of Germany and LucasVarity, the UK/US concern. Ford and Mando already co-operate closely – they have two joint ventures, Halla Climate Control and Halla Electronics.

Despite the financial problems at the parent Halla group, Mando's operating performance is considered strong. It reported 1996 net profits of Won30.7bn on sales of Won1,477bn, and enjoys close ties to Hyundai Motor, Korea's biggest car company.

Meanwhile, Kia, Korea's third-biggest carmaker, is seeking foreign investments in its car parts subsidiaries, including Kia Precision. Kia, which was nationalised in October after it filed for bankruptcy protection, recently said it was negotiating with General Motors on equity stakes in component manufacturing.

Analysts expect that GM and Ford could become dominant figures in the Korean car parts industry. In addition to possible co-operation with Kia, GM already has a components joint venture with Daewoo, Korea's second-largest car company. Besides Mando, Ford is discussing car parts manufacturing with Samsung Motors, the newest entrant in Korea's crowded car industry.

Ownership of a significant share of the Korean car parts industry would help boost the plans of both US carmakers to gain a 10 per cent share each in the Asian car market.

Even if they decide to forgo car production in Korea, GM and Ford would obtain a profitable business by supplying parts to the Korean car industry. Although Korean carmakers are now suffering a severe downturn, they are still expected to maintain production capacity of 3.5m vehicles annually, which is the second-largest output in Asia after Japan.

Analysts predict that GM, Ford and other foreign companies would promote a needed consolidation of the Korean car parts industry, which "largely consists of hundreds of small and weak suppliers," says Mr Kang. "Foreigners have the financial means to buy and merge suppliers – leading to greater cost efficiency and improved technical capability."

CASE STUDY Denso

Adapting to conditions

Even in Japan, few people apart from auto buffs would be familiar with the name Denso. But in the industry the company is revered as the bluest of Japan's blue chip component manufacturers.

Originally a division within Toyota, which still has a 24 per cent stake in the company, Denso today boasts among its customers most of the world's leading vehicle makers apart from Nissan, traditionally Toyota's chief domestic rival.

The company, which makes everything from car air conditioners to fuel injection systems and navigation systems, has also been a model among Japanese companies in terms of profitability. Its consolidated return on equity at the end of March 1997 was 7.6 per cent, compared with 6.8 per cent for Toyota. Group operating profits margins were 8.1 per cent, compared with 5.4 per cent at Toyota.

But in the recent difficult trading environment facing the Japanese industry, even Denso has had to adapt its strategies to changing market conditions.

"The weakness of the Japanese auto market means the components market will become even more competitive," emphasises Michio Oiwa, executive vice-president.

The situation is forcing the company to look increasingly outside its traditional markets for future growth.

In its latest corporate plan, Denso has identified three areas where it believes growth is still possible. The first is new products which are not currently part of the market. For example, air bags which were not part of a car just five years ago are now increasingly standard components.

However, the speed of technological developments means that even the mighty Denso is finding it increasingly difficult to stay at the leading edge on its own. Instead, component makers will increasingly supply each other with parts, he says.

Another area where Denso is seeking growth is in overseas markets, particularly among foreign automakers. Although the company has manufacturing facilities throughout the world and supplies most of the world's leading automakers, Denso has remained surprisingly dependent on Japanese customers.

The company has also adopted global accounting standards which are only beginning to gain wider acceptance in Japan, such as return on equity and the use of consolidated accounts, as key measures for self-assessment. It has stated, for example, a goal of achieving a return on equity of over 10 per cent in 2005.

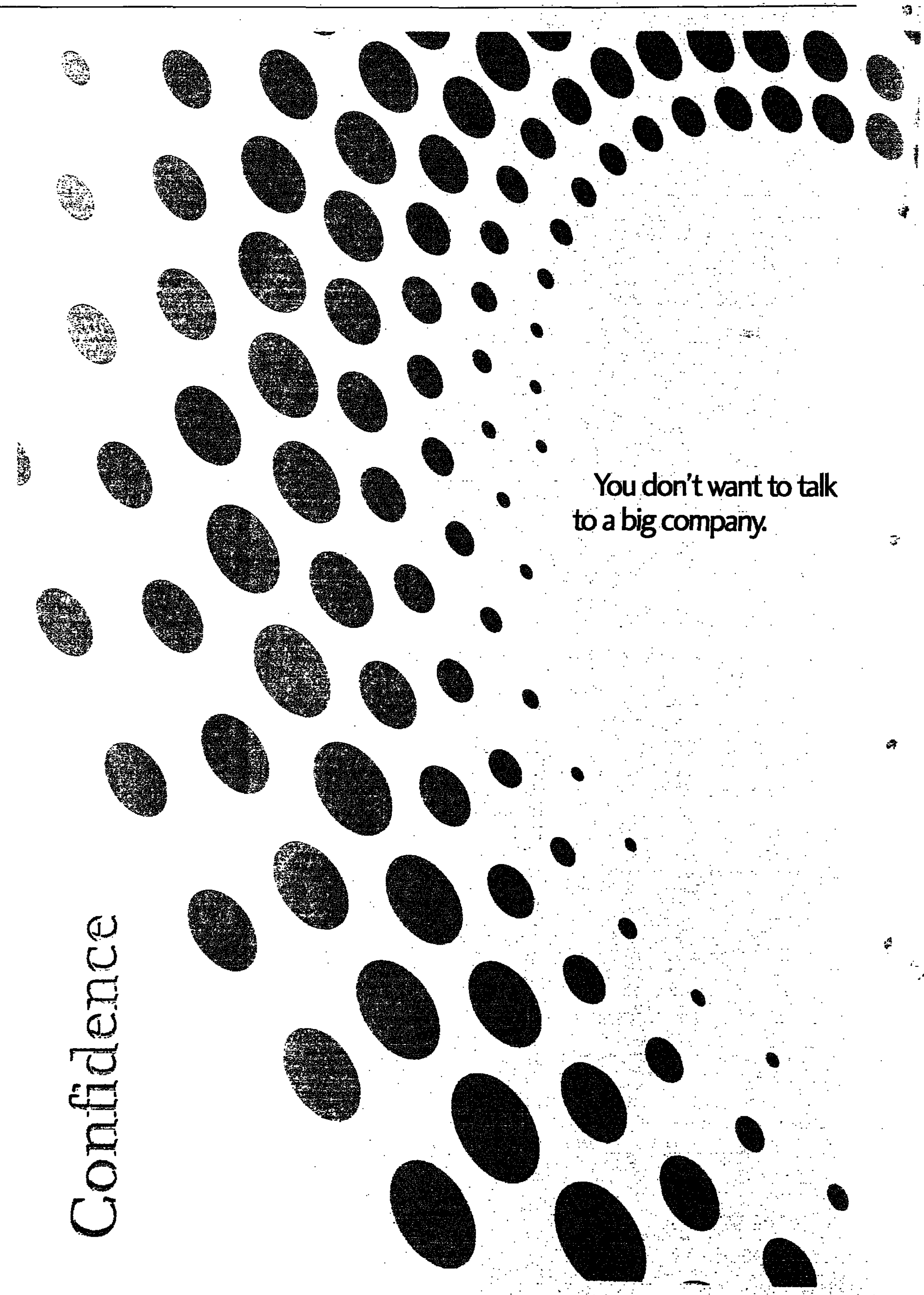
The third area where Denso aims to expand its business is in new applications of its technologies. The Denso name can already be seen on cellular telephones in Japan and the company is also a significant manufacturer of barcode readers.

While it will take some time for these new products to generate profits, Denso aims to increase the sales contribution from new products to 10 per cent by 2000 from 6.5 per cent currently.

With the Japanese economy in the doldrums, Asian markets reeling from the impact of currency turmoil and the need to invest substantial sums in new, environmentally sound technologies, Denso faces a difficult period ahead.

But given its track record, the odds are that the company will emerge from its latest trials even more competitive than before.

Michiyo Nakamoto



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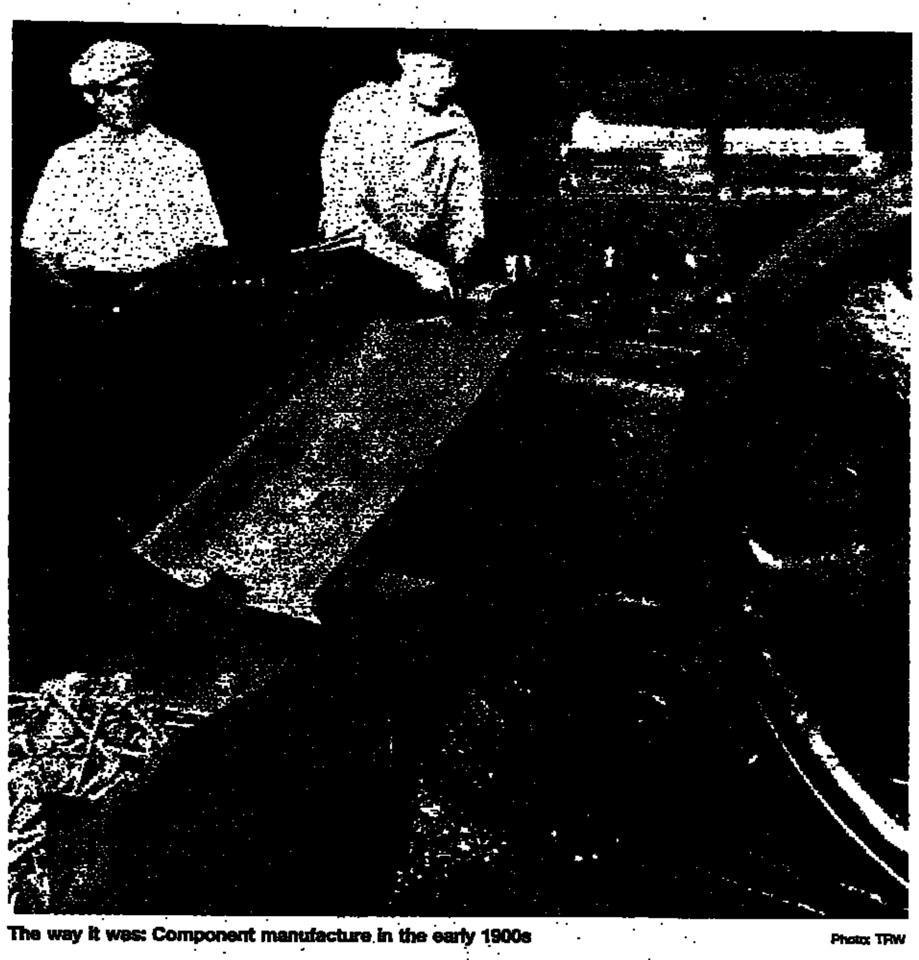
Components



The way it was: Component manufacture in the early 1900s

Photo: TRW

Victims of quality success

Technological improvements have depressed demand in the aftermarket, reports Nikki Tait

NORTH AMERICA

For North American auto components manufacturers, the past six months have been marked by a weak domestic aftermarket but a more encouraging – albeit mature – original equipment sector.

The uninspiring conditions in the aftermarket can be blamed on a variety of factors. The improved quality of original equipment parts has tended to depress replacement demand, meaning that some companies have effectively become victims of their own product advances. The weather, too, has been unhelpful, with a fairly mild summer and an El Nino-warmed winter sending fewer car-owners to repair shops.

According to the Automotive Parts and Accessories Association, total aftermarket revenues in the US (at the retail level) reached just over $151bn last year, up by about 5 per cent from 1996. This, however, is an all-embracing figure covering the likes of maintenance, repairs and fuel. Analysts see the underlying market for parts themselves as more sluggish; over the past three years, replacement part sales have generally risen by less than 1 per cent annually.

The original equipment market on the other hand has been sustained by the strength of the US economy. Total US vehicle sales topped 15m units for the third year running in 1997, providing a fairly stable demand base for independent auto parts suppliers. And, in spite of a sudden 7 per cent decline in January's auto sales, most analysts are still expecting another steady year in 1998.

Against this broad backcloth, independent component suppliers have been faced with a mixture of challenges and opportunities. On the one hand, the stable, but less than stellar, environment makes pricing competitive and continues to ensure that companies search hard for cost-efficiencies.

But, on the plus side, the car manufacturers' own increased attention to costs has encouraged more outsourcing of parts requirements. This, then, provides good growth opportunities for those component suppliers who can position themselves to meet the carmakers' increasingly global needs. In addition, as vehicles continue to add ever-more sophisticated features – such as electronic gadgetry – some component suppliers have an opportunity to expand their product lines, often into higher value-added segments.

So, it is hardly surprising that the wave of restructurings and consolidations in the auto components sector should continue apace as suppliers attempt to account for a higher proportion of each car or truck produced, service their customers on a global basis, and streamline their cost base.

Examples of these trends are plentiful, but nowhere have they been more evident recently than at Detroit-based Federal-Mogul, which makes and distributes a mixture of original equipment and replacement parts, ranging from sealing systems to lighting products.

Over the past 18 months, revamped management at the company – which slumped into the red during 1995 and 1996 – has overhauled the manufacturing and administration structure, cutting around 3,000 jobs. An international chain of auto parts stores has been shed, and the company has begun an ambitious acquisition programme designed to bolster key parts of its product range and widen its geographical coverage.

Late last year, the US company bought Britain's T&N for $2.9bn. More recently, it acquired Fel-Pro, the privately-owned gasket manufacturer for about $720m. While the long-term financial benefits of this strategy have yet to be proven, the Detroit components supplier can already claim to have moved itself from being a $2bn company to one with $5bn in sales, including a $1bn core sealing business which now has fairly extensive international reach.

A similar picture, in slightly less dramatic form, emerges at many other companies. For example, Dana Corporation, the Toledo-based axle, clutches and engine parts supplier, shed businesses with sales of around $900m last year in nine separate deals. At the same time, it acquired operations with $1.3bn of sales, including Eaton Corporation's heavy axle and brake unit – the whole process amounting to a significant realignment around its core product lines.

Now a big question is whether south-east Asia's economic woes will allow US component suppliers to reinforce their global capabilities in that region – most notably in South Korea. The answer seems likely to be 'yes'; already, a number of South Korean companies who have fallen on hard times – such as the Halla conglomerate – are negotiating with US and European parts manufacturers as they try to offload assets to raise capital.

Multinationals taking over

Local manufacturers fight a losing battle, says Jonathan Wheatley

SOUTH AMERICA

The 1990s have been doubly difficult for South American components makers.

Liberal economic policies have torn down the trade barriers of the past and thrown open what were cosily protected markets, exposing antiquated and unwieldy companies to competition from lean, highly-capitalised foreign manufacturers.

To make matters worse, governments seeking to encourage foreign investment in fast-growing motor industries have raised duties on imported vehicles while slashing those on components.

The result has been a wave of closures, mergers and acquisitions and the increasing dominance of the industry by foreign multinationals. By the end of the decade, all but a handful of "first tier" companies selling to vehiclemakers will be foreign-owned, leaving only some in the second tier – those supplying the first tier – in local hands.

In Brazil, by far the region's biggest market and manufacturing base, the process is most advanced. The number of first-tier suppliers has fallen from about 1,000 to a little over 500, and is expected to stabilise at between 200 and 300 by the end of the decade, supported by another 1,000 or so second-tier suppliers.

Most of the big names in Brazil's components industry have been absorbed by foreign competitors. Control of Cofap, which makes shock absorbers, piston rings and exhaust systems and was one of the few manufacturers to establish a presence overseas, was bought in June by Magneti Marelli, the Italian components manufacturer owned by Fiat.

In October, LucasVarity said it would take control of Freios Vargas, the country's biggest maker of brakes.

"Manufacturers are demanding closer and closer relations with their suppliers," says José Ferro, a motor industry consultant in Sao Paulo. As well as encouraging takeovers, this has resulted in several new multinational parts makers setting up in the wake of new vehicle makers.

The "big four" manufacturers in Brazil – Volkswagen, Fiat, General Motors and Ford – will soon face competition from a wave of such arrivals. Investments have been announced by Honda, Toyota, Chrysler, Renault, Peugeot, Asia Motors and BMW, and the big four are expanding in response. If all plans are carried out, the industry's capacity will increase from 2m vehicles a year today to about 2.5m by 2000.

As competition increases, efficiency in the supply chain has become paramount. At the new General Motors factory being built in the southern state of Rio Grande do Sul, a small group of suppliers will set up their own factories around the assembly plant.

Chrysler will bring suppliers to the vicinity of its new factory in the southern state of Paraná.

At VW's truck and bus factory at Resende, in Rio de Janeiro state, suppliers have been brought inside the factory to assemble modular units around a central production line.

An agreement on policies for the motor industry between Brazil and Argentina in 1995 set import tariffs of 70 per cent for vehicles imported from outside Mercosur, the fledgling free trade area which also includes Paraguay and Uruguay. Duties on imported parts were set at 2 per cent.

But vehicle manufacturers operating in the two countries are allowed to import vehicles at half the new rate. While duties on vehicles have begun to fall towards a target of 20 per cent by 2000, and duties on components are rising towards the Mercosur common external tariff of about 14 per cent, the regime – which has been challenged at the World Trade Organisation (WTO) by the US and the European Union – is a clear incentive to investment in the two countries, and to cross-border trade.

Dual operation in Brazil and Argentina has become the industry norm, with Argentina tending to be used for higher value, lower volume lines, and Brazil for bigger volume, "popular" models.

A similar regime was agreed in 1993 between Colombia, Venezuela and Ecuador. Duties on vehicle imports from outside the three countries were set at 35 per cent for passenger cars and light commercial vehicles and at 15 per cent for trucks; duties on CKD components and kits were set at 3 per cent.

Local content requirements were fixed at an initial 30 per cent for cars and light commercial vehicles, rising to 33 per cent this year, and of 13 per cent, rising to 18 per cent, for heavy trucks. Components manufactured inside the bloc are treated as local content in all three countries.

So far, only one vehicle manufacturer has attempted to integrate operations across the region as a whole. Fiat's Project 178, the "world car" platform for its Palio, Weekend and Siena models, is produced in Brazil, Argentina and Venezuela, with assembly in Venezuela from kits exported from Brazil and Argentina. Development was carried out with local suppliers: Cofap, for example, helped develop the models' suspension units.

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Components

Carmakers look closely at in-house

Haig Simonian examines the components units at companies such as Ford and General Motors

With the value of mergers and acquisitions running to $10bn or more a year in the world components industry, attention has concentrated on consolidation among independent suppliers.

That means observers have sometimes overlooked the often equally big developments at carmakers' in-house operations. Companies such as General Motors's Delphi subsidiary, the world's biggest components group, or Ford Motor's Visteon arm dwarf even the biggest of the new independent amalgams.

Between them, GM and Ford have been pushing through momentous changes to improve efficiency and make their operations competitive with outsiders. Where internal restructuring has failed, the answer has been sale or closure.

Even in Europe, where outsourcing is more prevalent, internal operations have been streamlined. Companies such as Fiat and Renault have pioneered the sale of internal components manufacturing – for example, constant velocity joints or wiring harnesses – to specialists in return for long-term contracts.

The biggest move in Europe came with the acquisition last December by Ecia, the exhaust and seatmaker controlled by Peugeot-Citroën, of Bertrand Faure, the French seating and interiors group. Peugeot-Citroën intends to retain control of Ecia even after the dilution of its stake as a result of the takeover. But Ecia has always been run at arm's length, and the incorporation of Bertrand Faure, which supplies many manufacturers beyond Peugeot-Citroën, should reinforce Ecia's independence.

Even bigger changes have been taking place across the Atlantic. Jack Smith, GM's chairman, says the company should have found buyers for Delphi's big seating and lighting operations by the end of March. The sale forms part of GM's decision late last year to allocate $3bn to $4bn to unspecified restructuring charges.

Seating and lighting form an important part of Delphi Interiors and Lighting, one of the Delphi's seven divisions, which had sales of $5bn last year. Seating is a major operation in its own right, with about 7,000 employees in seven factories, five of them outside the US. Lighting accounts for a further two plants.

With the seating industry dominated by a handful of suppliers, analysts expect a trade sale. Apart from Johnson Controls and Lear, the other candidates include Canada's Magna group – the fast-expanding number three in the business – Bertrand Faure, or Japan's Ikeda.

The seating and lighting sale is part of a continuing restructuring process at Delphi. Over the past six years the company, which had sales of $28.4bn in 1997, has been striving to reduce its dependence on GM. Its target is to generate 50 per cent of sales from outside GM's North American vehicle operations by 2002. That proportion reached 38 per cent at the end of last year.

At the same time, J.T. Battenberg, its chairman, has pursued a "fix, sell or close" strategy for Delphi. That has reduced the number of product lines from 310 in 1992 to 152 last year as the group has concentrated on activities in which it can compete best.

Delphi says it is constantly reviewing its businesses – meaning even those that might once have been considered secure can find their status deteriorating if they fail to remain competitive. Hence the decision to divest seating and lighting operations.

Mr Battenberg has also been grappling with the incorporation of Delco Electronics as Delphi's seventh division. The transfer of Delco, formerly part of Hughes Electronics – another GM subsidiary – followed the carmaker's decision to sell Hughes's defence and space activities last year. After government and shareholder approval, Delco – now renamed Delphi Delco Electronic Systems – has joined Delphi.

While Delco will remain based in Indiana, staff are being transferred to Delphi's new HQ at Troy, north of Detroit. The shift, intended to underline the integration, also reflects the trend towards systems integration in areas such as interiors where Delco and Delphi were complementary. Delco's audio and in-car entertainment systems, for example, would be built into Delphi's dashboards as a single module.

Only when Delco is fully integrated around September will Mr Battenberg turn his attention to the next priority, a stock market flotation. The idea, mooted for some time, stalled after the decision to sell seating and lighting. But most analysts believe the sale of about 20 per cent of Delphi's shares via an initial public offering is on the cards for early next year.

IPOs are still not part of the vocabulary at Visteon, Ford's renamed automotive products group. Nor are disposals. For the moment, its emphasis is to turn what was principally a contract manufacturer for the parent company into a competitive supplier.

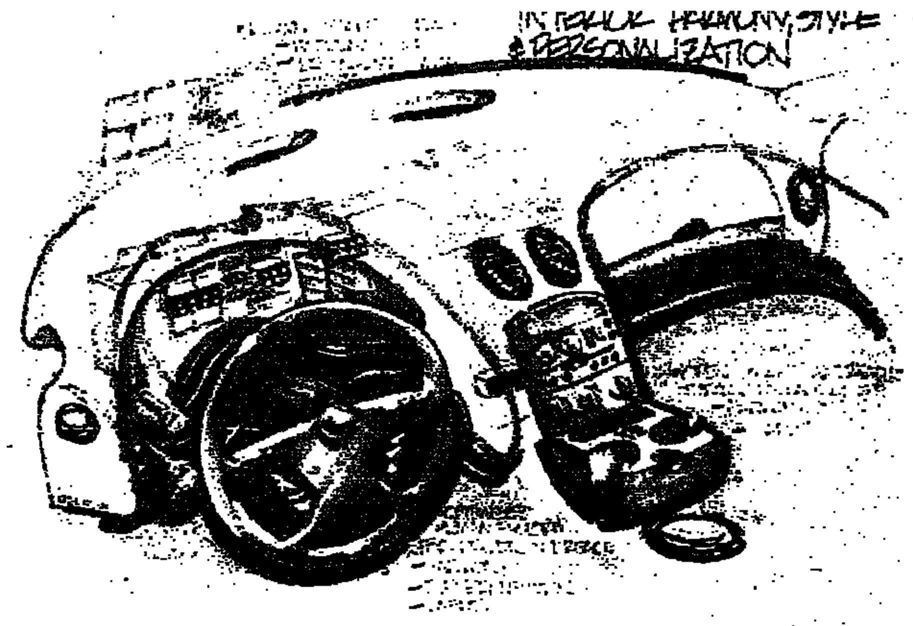
In spite of its different emphasis, many of the Visteon's and Delphi's goals are the same. Charles Szulak, Visteon's boss, wants to raise the proportion of sales to companies outside Ford from 6 per cent of turnover to 20 per cent by 2002. And he wants to improve Visteon's competitiveness to match that of the best independent suppliers in its chosen areas of activity.

As a first step, Visteon has restructured its previous four divisions into seven, more customer-focused, units. Beneath them, it has established 23 strategic business units, each handling a core activity, such as climate control or audio.

To gear the business units to maximising sales and profits, rather than just bidding internally for Ford contracts, more management and balance sheet responsibilities have been devolved to the heads of the 23 units.

At the same time, Visteon's sales and marketing has been strengthened. Late last year, Craig Muhlhauser arrived from Pratt & Whitney as Visteon's new sales and marketing czar: since then, the company has been building up sales and marketing teams and opening new offices in major vehicle manufacturing centres.

As a sign of the new times, Visteon's profits will be split out from the Ford group's for the first time later this year. Just a step ahead, Delphi took the same initiative for the first time last year.



The Delphi way forward: dashboards will be built as a single unit

The art of finding the right name...

Companies spend millions on rebadging products and units. **John Griffiths** takes a look at some offerings

The research and development teams were nothing if not thorough.

For more than five months they questioned, probed and analysed. Management members were interviewed. Employee "focus groups" were co-ordinated. Financial analysts were interrogated. Customer companies of both Rockwell Automotive's heavy and light vehicle systems divisions were surveyed.

And, finally, they came up with, not a new engineering breakthrough, but a name: Meritor.

There is now a considerable investment in time and effort – not to mention the undisclosed costs – deemed necessary to come up with a new identity for a company enjoying in this case annual turnover in excess of $3bn and being cut loose from its parent of more than 80 years.

The name was devised by Landor Associates, one of the biggest "corporate identity development" companies in the US, and provides no clue that Meritor and Rockwell Automotive – which on October 1 last year ceased to exist as a name – are essentially one and the same.

Playing the name game has become something of a fad in the world's automotive components sector during the past couple of years. Both General Motors and Ford have also separated out their respective components divisions.

GM's components operations, with turnover of almost $25bn represent by far the world's biggest components company. However, both GM and Ford decided that their respective operations needed to be more competitive, and could help themselves to become so with new identities and by operating at arm's length from the rest of GM.

Hence, what was GM's Automotive Products Group (AOG) has become Delphi. Ford's Automotive Parts Operations (APO) have turned into Visteon.

For the 175,000 GM components workers, "Delphi" must have come as quiet relief for in the past GM's components operations have endured some tongue-mangling appellations.

"There are still painful memories of the 1980s' General Motors Service and Parts Organisation – rolling off the tongue as the acronym GMSPO will all the ease of a minicar bouncing over boulders.

The logic by which GM chose Delphi – full name Delphi Automotive Systems – is fairly straightforward, as is the name itself. GM wanted a simple, forward-looking name instantly recognisable to anyone around the world, after all the previous confusions.

"Simplify is the key word," said the company's president, JT Battenberg, with slightly pained emphasis, when he unveiled it to grateful customers and workforces. If some saw irony in the identification of Delphi with the ambiguities of the ancient Greek site's oracle, GM clearly preferred to identify with it as shrine of the sun god Apollo and the shining new era envisioned ahead.

Ford's Visteon is a wholly manufactured name, the world's number two carmaker thankfully shunning some of the puns which have embarrassed its more distant past.

Instead, the company which once made strong men wince with the customer colour charts for the Ford Maverick – *Hulla Blue, Thanks Vermilion, and Freudian Gilt* among the more colourful – sought to invoke in Visteon's beholder images of positive panoramas of the future, especially in company with its "energy stream" logo.

Visteon was just one of dozens of manufactured words Ford touted for ages around various reaction-gauging customer "clinics". That did not prevent it getting a fairly lukewarm reception when the new identity was unveiled at the Frankfurt motor show last autumn, however. "Oh well," said George Forrest, associate director of global marketing defensively, "the clinics certainly scored it higher than Delphi..."

Meritor, Landor Associates rather self-evidently proclaims, is also what it prefers to call a "coined" word. It derives from the Latin *meritum*, means, Landor tells us earnestly, "merit, deserve, worth, benefit and service..."

Integral to the name is an equally new logo – a stylised flying bull. It represents, assure Meritor executives, "the company's core attributes: power, stability, integrity and agility. It is a mythological and magical creature which, in flight, symbolises speed to serve customers."

In reality, however, Meritor is still playing it safe.

Look hard, and tiny type below the name offers the slogan: "A Heritage of Rockwell Technology". The apron strings are not completely untied.

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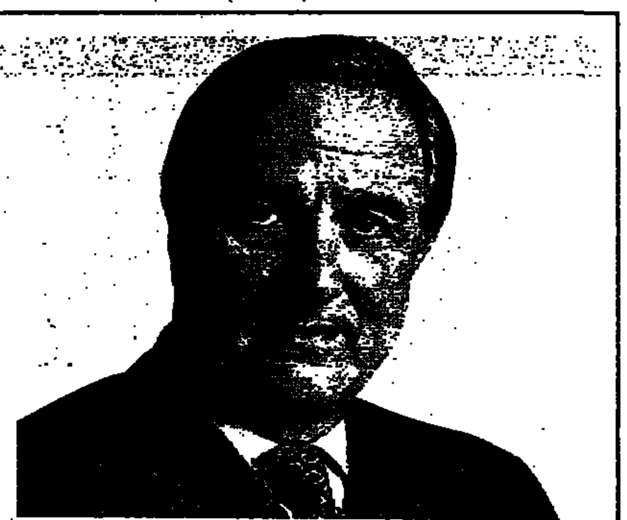
CASE STUDY **Ecia**

Stepping out of the shadows



Daniel Dewavrin: 'There is a clear vision of management'

Daniel Dewavrin admits that Ecia is not one of the first names likely to crop up in reviews of leading participants in the world automotive components industry. But, he suggests, *it should now be only a matter of time.*

Barring a few formalities, including assent from the European Commission, Mr Dewavrin will soon become chief executive of a new French force in the components industry – and one determined to have the global capability required by leading carmakers of their 'first-tier' suppliers.

Ecia, 68 per cent owned by PSA Peugeot-Citroën and the French vehicles group's principal components subsidiary, is mounting a friendly takeover of Bertrand Faure, already one of the world's biggest supplier of automotive seating.

The resulting 'new' Ecia, described as "stepping out of the shadows" by securities house JP Morgan, will have annual sales of FFr26bn, employ 29,000 and, says Mr Dewavrin, will be in the top five suppliers in each of the sectors in which it will compete. It will become the second-largest French motor components group after Valeo and have nearly 80 plants in 25 countries.

Although both companies are engaged almost entirely in the automotive components sector – Ecia also makes light motorcycles and scooters, accounting for some 14 per cent of turnover – their activities are almost wholly complementary.

Bertrand Faure makes some other interior trim parts such as carpets but derives most of its income from seating. Ecia makes a variety of integrated systems such as facia modules and is a pioneer of complete front-end assemblies – including front bumper, light housings, grille and fan-cooling unit. It is also Europe's biggest maker of exhaust systems.

There is token overlap – Ecia also makes some car seating – but this will be rationalised quickly, says Mr Dewavrin, allowing the group to focus on its four core sectors: seating, other vehicle interior modules, exhaust systems, and front-end systems.

The takeover is no real surprise, having been foreshadowed just over a year ago by Ecia taking a 17.3 per cent stake in Faure. The takeover's "friendliness" is reflected in Mr Dewavrin, Bertrand Faure's chairman and chief executive, heading up the new company.

The FFr430-per-share takeover values the seatmaker at FFr7.3bn and is being financed by borrowings and a FFr2bn rights issue. Peugeot-Citroën will be principal shareholder, with 51 per cent.

The takeover, due to be completed by the end of March, marks the first big strategic step by PSA's new chairman, Jean-Martin Folz, since taking over from Jacques Calvet in October. It will more than double the size of Ecia, created through a flotation of Peugeot's components activities in 1987.

Ecia is the smaller partner, its 1997 sales reaching an estimated FFr10.4bn, compared with Bertrand Faure's FFr16bn. Both are profitable, with Ecia reporting net income of FFr219m in 1997's first half after earning FFr364m net on turnover of FFr9.5bn in the whole of 1996.

Bertrand Faure's 1997 first-half net earnings of FFr280m on sales of FFr8bn represented a sharp increase over the FFr303m net profit and sales of FFr13.9bn sales for all of 1996.

"We are talking about the integration of two successful companies with a high potential for synergies," says Mr Dewavrin. "There is a clear vision of its management and organisation – and there will need to be no major structural changes because of the mainly complementary activities."

Enhanced buying power, improved capacity utilisation through a wider product range and common equipment and systems are perceived as key benefits for the new group.

The deal also has an element of defensiveness – a recognition that the continuing concentration of the world components industry into a few dozen global companies demands size, technological resources and economies of scale which neither Bertrand Faure nor Ecia could command on their own. Faure's main rivals, Lear Corporation and Johnson Controls, have annual automotive sales of around $5.2bn and $4.5bn respectively.

"The trend towards concentration is not yet over," says Mr Dewavrin. "The present deal will take us towards global critical mass; we will become a major player of the industry, and will be considered as such."

It also means an intensified search for "outside" customers. In that respect, Faure has been better off than Ecia. Around 75 per cent of its sales are outside France and French customers, compared with 45 per cent for Ecia.

Peugeot-Citroën currently accounts for 34 per cent of combined turnover, Volkswagen group 18 per cent, Renault 14 per cent and BMW/Rover another 11 per cent. The remaining 23 per cent includes Mercedes-Benz, Jaguar, Honda, Mazda and Mitsubishi.

North America, Japan, China and the emerging Mercosur economic region of South America, notably Brazil and Argentina, are prime targets. Mr Dewavrin says there should be good potential to expand business with North America's "big three" vehicle makers, General Motors, Ford and Chrysler.

Both Ecia and Bertrand Faure already have footholds: Ecia is a licensed supplier of exhaust equipment to Ford, while Faure supplies Chrysler indirectly through a contract with Canadian components group Magna International. 'New' Ecia wants to build on Faure's existing resources in North America, which include four small plants and a Detroit research centre.

Faure does not necessarily mark the end of Ecia's growth by acquisition. "We are fully prepared to take on additional acquisitions if they are necessary to achieve our global goal," says Mr Dewavrin.

John Griffiths

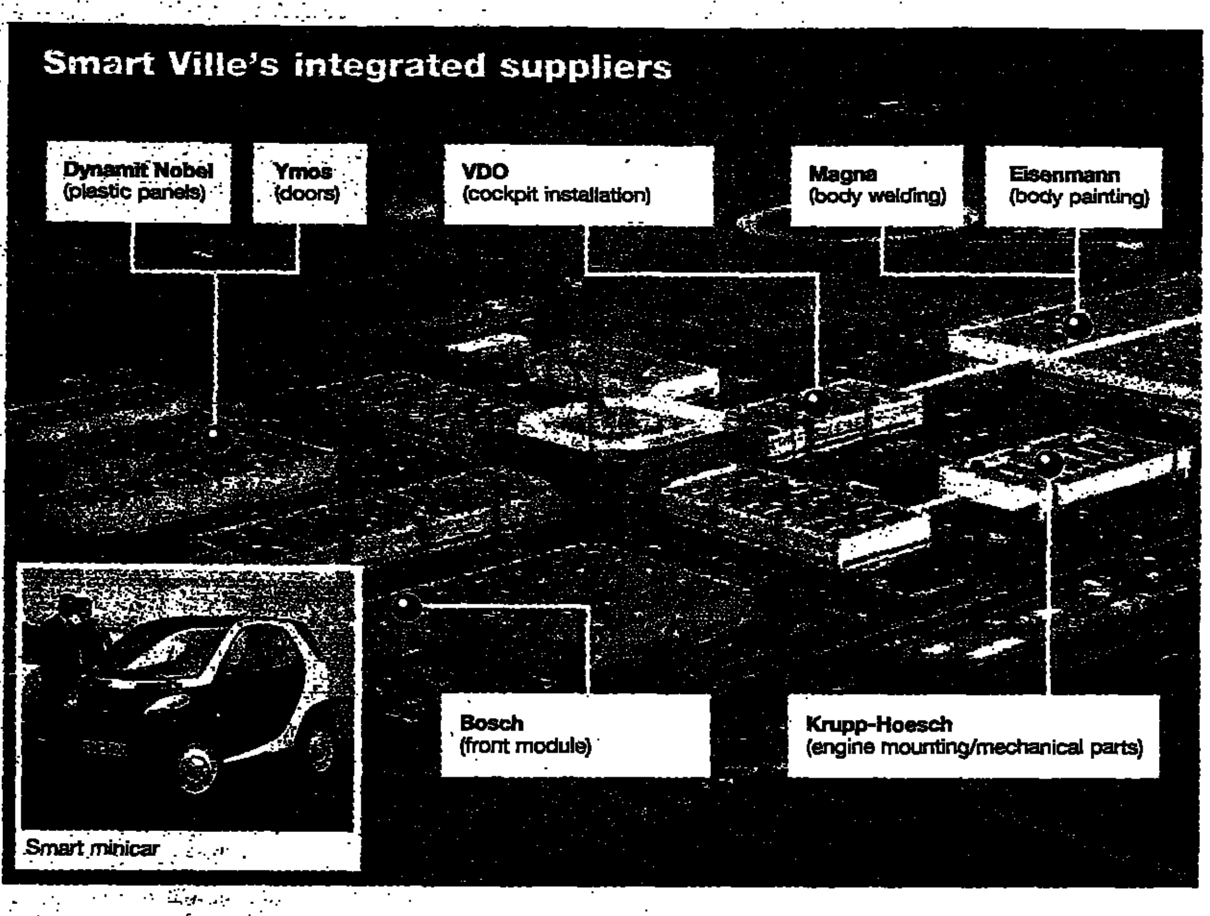
CASE STUDY Micro Compact Car

Smart work for partners

For students of supplier integration in carmaking, the future is here – but not quite. The decision late last year by Micro Compact Car (MCC), the joint venture between Mercedes-Benz and Switzerland's SMH watches group, to postpone output of the Smart minicar by six months to April was a severe blow.

Press reports concentrated on the need to re-engineer the Smart after the problems with Mercedes-Benz's A Class car. As a similarly tall and narrow vehicle, MCC feared the Smart would be subjected to the same tests, with the same results, as the A Class in the now infamous "elk" avoidance manoeuvre.

But the other reason for the delay was unspecified problems with suppliers. Neither names of companies, nor the nature of the problems, were revealed. But all, it appeared, was not well at MCC's factory at Hambach in eastern France.



Delays to the start of a new car are nothing unusual. Volkwsagen, hardly a novice, has still not managed to reach production targets for its new Golf, almost six months after launch. MCC had more grounds than most to expect trouble: breaking every rule in the motor industry's book, it had decided to build a new vehicle at a new factory with a new workforce in a region with no history of carmaking.

But the state of play at the Smart plant – dubbed "Smart Ville" by MCC and even local residents – has a deeper significance than for just the company. For all the publicity about the revolutionary two-seat Smart, it is probably the factory which has the greater resonance for the motor industry than the actual car.

That is because MCC has done what many motor industry pundits have long been mooting: integrating suppliers to save time and money in product development and manufacturing and to improve quality.

At Hambach, a handful of key suppliers, called "system partners" in Smartspeak, have played an unprecedented role. Companies such as Bosch (front modules), Dynamit Nobel (plastic body panels) and Krupp-Hoesch (mechanical sub-assembly, including the motor and axles), have been involved in the project from the start. Their role has embraced consultation on the vehicle's basic design to co-ordination of development and production engineering and even direct involvement in the layout and workflow in the factory.

For Smartville is like no other car plant in the world. The main assembly area is a large building shaped like a mathematical addition or plus sign. Around it are the separate premises of the system partners, linked by conveyor belts.

Each Smart is welded together by Magna, the Canadian body and components group, in its building adjoining the "plus" before being passed to Eisenmann for painting. The painted shell is then taken by overhead conveyor to the first axis of the "plus", where component modules from other system partners are fitted at the appropriate point on the line. Shaping the assembly area like a "plus" allowed the system partners to be located at just the right place on the assembly line for the installation of their modules.

Hambach's novelty does not end there. Workers from the system partners mix freely, are treated identically to MCC's own staff, and take charge of final assembly within the "plus". To underline their common purpose, all eat together in a common canteen, located above the centre of the "plus". The commanding views of the assembly lines and rectification area from its windows are supposed to drive home the sense of transparency and the company's message that quality is crucial.

That, at least, was the official line until the revelation of last year's problems. Very little information has trickled out about the details, but among the issues at stake were poor fitting of some modules and quality deficiencies in others.

The setback has had wide ranging repercussions. For Mercedes-Benz, it could hardly have come at a worse time. The company had barely digested the impact of the A Class fiasco. Mercedes-Benz officials note that this time at least the design modifications came before the vehicle went on sale, rather than after.

The delay has also raised questions about the basic concept of the Smart – always a controversial vehicle because of its limited passenger capacity and relatively high price. And it has saddled MCC, in which the German carmaker has 81 per cent, with unspecified extra costs.

Apart from sales foregone, MCC may also have had to compensate its 100 or so Smart dealers, which invested heavily in new premises. Some claims may well have been made by disgruntled suppliers. The financial arrangements with the system partners are more complex, as they are believed to involve some element of risk sharing. But even here, the company may have been saddled with demands for compensation.

What is less easy to judge is the impact of the delay on the concept of supplier integration in general. A number of carmakers are believed to be examining Hambach closely as a potential blueprint for similar plans of their own. Last year, General Motors said it would build an unspecified new small car at a plant in southern Brazil along what appear to be very similar lines to Hambach.

Most observers expect MCC to overcome its problems, with output being ramped up once production starts in April. But it is already clear that how matters work out in Hambach will have much wider repercussions on the motor industry than just in eastern France.

Haig Simonian

Neighbours make for good relations

Many carmakers are encouraging suppliers to set up alongside their factories. John Griffiths reports

Jaguar, Ford's UK-based luxury cars division, has made clear that when it starts making its first high-volume car – the X400 – in three to four years' time, it wants to be able to draw components from supplier parks adjoining the Halewood production site on Merseyside in north-west England.

Its reasons for doing so are straightforward: primarily that the parks allow just-in-time delivery to assembly lines and lower substantially inventory costs.

With traffic congestion already costing the UK economy at least £10bn a year in delays, lost man-hours and wasted fuel, most carmakers see supplier parks as an ideal way of reducing both costs and uncertainties.

Similar thinking has led to land clearance for the creation of supplier parks alongside existing vehicle production plants and their incorporation into the overall design of the greenfield factories carmakers are rushing to establish in fast-growth regions of the world such as Latin America.

General Motors is building what it describes as a supplier "village" for the new car plant it has under construction at Gravatai in Brazil. The village will house well over a dozen leading suppliers, such as Lear Corporation, the French Valeo group and GM's own components subsidiary, Delphi. All are Tier 1 suppliers.

They will be supplying to Gravatai's assembly lines not merely parts but whole component systems, from suspension packages to seating, dashboard and similar modules – further helping the carmaker by greatly simplifying assembly line processes.

GM, Ford and other carmakers see themselves increasingly as assemblers of these high-value component packages, from what are now more accurately called systems integrators than merely parts suppliers.

The relationship is mostly a symbiotic one. A significant trend of the 1990s has been for carmakers to devolve to their major suppliers much of the responsibility for researching, developing and manufacturing the component systems which make up around 60 per cent of the value of a vehicle.

In return for their hard work and willingness to invest in supply facilities at Gravatai, or almost wherever in the world the big carmakers wish, the relatively small number of suppliers with global capability are rewarded with much higher value, long-term contracts than has been typical in the past.

In a few cases – so far – the relationship is so close that it is difficult to see dividing lines. Tier 1 suppliers at Skoda's main facility in the Czech Republic, for example, are working at facilities within the plant itself, building component systems to be fed directly on to the assembly line.

What many in the industry regard as a good model for the supplier park system is just being completed at Ellesmere Port, the site in north west England – just a few miles from Jaguar's Halewood facility – where GM's Vauxhall subsidiary is building the latest-generation Astra car range.

The $30m park is small, at 21 acres, but already houses several Delphi operations, plus Plastic Omnium and Mackie Automotive Systems. Delphi will produce various systems and sub-assemblies, such as steering and suspension packages, while Plastic Omnium will provide plastics-based component modules such as bumpers complete with lighting and mounting points for quick assembly to the car. Mackie will assemble a variety of systems, including cooling and ventilation.

They are interfacing with the assembly line through SILS (supply in-line sequence). The components suppliers receive vehicle assembly schedules from Vauxhall at frequent intervals daily, and transfer component assemblies in correct sequence to small "trains" running on dedicated tracks to the precise location on the assembly line where they are needed. Plant managers say the system is making it possible greatly to reduce detailed assembly work on the lines.

The leading Tier 1 suppliers are already demonstrating their capability to provide almost any required component system for vehicles, from complete plug-in dashboard modules to – in the case of Chrysler's light truck plant in Brazil – an entire chassis complete with wheels which needs only rolling onto the assembly line. Mayflower, the UK-owned engineering group, is also providing the complete body for the low-volume Prowler roadster.

While the Prowler is too low-volume for Chrysler sensibly to consider making its own body for the car, the light truck case in Brazil provides a good example of some vehicle makers' concern about whether this type of activity is going too far.

In the past, Chrysler's president, Thomas Stallkamp, has said that Chrysler would retain control of vehicle design, assembly, core drive train components, car body pressings and key electronic systems but that everything else would be "up for grabs".

While still approving of the partnership relations forged with its Tier 1 suppliers, and acknowledging the pivotal role they have played in Chrysler's dramatic resurgence, the company shows signs of setting limits on how far the process will be allowed to go. The urgings of leading suppliers that they should be allowed to develop entire interior packages – embracing everything from the dashboard to seats and rooflining – so far are falling on mainly deaf ears.

There are still limits, it seems, to how far carmakers are ready to give up production process control.

CASE STUDY Johnson Controls

Standing up to seating challenge

Few companies in the motor industry have latched on to the trend towards "outsourcing" as well as Johnson Controls, a US company which at the turn of the 1980s was known purely for its non-automotive interests in heating controls and plastics containers.

During the past 13 years Johnson has used these activities as the somewhat unlikely base to become one of the world's two biggest makers of car seats and related interior systems for vehicles. It gains sales from these products – which many carmakers prefer to leave to outsiders rather than make them in their own plants – of some $7bn a year.

Johnson has total annual sales of around $11bn, including building controls and car batteries. With Lear, the other US company which leads the field in car seats, Johnson early on grasped the idea of taking over from the carmakers the job of supplying these essential parts of a vehicle's interior.

In the mid-1980s, the car companies did this job almost entirely in their own factories. Today, Jim Keyes, chairman and chief executive of Milwaukee-based Johnson, estimates that 80 per cent of the seating in new cars in the US is outsourced to a maker such as Johnson, Lear or other suppliers such as Delphi, the automotive component arm of General Motors.

In Europe, the comparable proportion for seat outsourcing is about 70 per cent. Johnson has more than 130 seatmaking plants, most of them in the US and Europe, with another 11 due to be added this year. Many of these are satellite units close to big car factories, with the seats delivered on a just in time basis straight to the assembly line.

Mr Keyes, who started his professional career as a college lecturer in finance, says that seatmaking involves more than just the efficiency increases involved through taking over responsibility for one of the apparently duller aspects of building a vehicle.

"Outsourcing is normally thought of as reducing costs. But it's really about technology," he says. Johnson employs 1,500 seating engineers – compared with nil in 1985 when it first started in the business – who are involved with a range of aspects of seatmaking and design on behalf of the car manufacturer. While aesthetics and safety are of prime importance, the engineers are also concerned with the structural aspects of seating designs, how to build the products with maximum efficiency and new textiles that may be more comfortable and act as a sales feature.

Mr Keyes sees as crucial the drive to increase the proprietary element of the design work done by Johnson's engineers, so more of it can be used across a number of car models and different customers.

"Three years ago, 80 per cent of our development work was done on behalf of individual customers and only 20 per cent was our own proprietary designs," says Mr Keyes. "Today the proportion is about 60:40 and our goal is to turn this to 20:80."

Through this process, Johnson reckons that it can encourage engineers to come up with ideas that can be spread around a number of customers and car models and so boost its own revenues. Another strategy is to emulate its arch-competitor, Lear, by moving into other non-seating areas of car interiors (such as roof interiors and trim parts) as part of a move to offer a "total interior" service to automotive companies.

Following the $625m purchase by Lear in 1995 of US interiors company Automotive Industries, Johnson followed up a year later by paying $1.3bn for Michigan-based Prince, a maker of miscellaneous interior parts including lighting and ceiling supports. The deal – which Johnson helped to finance through the sale last year of its plastic container division for $650m to a division of German packaging group Viag – should help the company to build strengths in this field, Mr Keyes says.

A third way of adding growth is to follow the big US and European car companies as they build plants outside these regions, for instance in south-east Asia and South America. At present, Johnson's seating sales are split roughly 2:1 between the US and Europe, with very little outside, but by 2000 Mr Keyes promises "significant" revenues from outside these regions.

Peter Marsh

"Will the car maker of the future be a virtual company, simply marketing a collection of systems from mega-suppliers? Will Tier One give way to Tier Zero?"
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Apr 24-26: Motorhome and tourer show; Peterborough; +44 (0)1778 391109

Apr 25-26: Automotive trade show; Birmingham; +44 (0)171 235 7000

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Components

Outsourcing: Why I have reservations

Ian Gibson, chief executive of Nissan Motor Manufacturing (UK) takes a contrarian view

Ian Gibson: 'It is important to define the reasons for outsourcing' Photo: North News and Pictures

An increasingly hyped vision of the future of car-making has component makers building large sub-assembly modules, such as the entire facia and instruments, in their plants and then delivering them to the assembly line at the car manufacturer. In this world, supplier employees, rather than the carmaker's staff, would fit these large modules to the car.

Another scenario – already a reality – is where suppliers take total control and responsibility of fundamental parts of the manufacturing operation such as the paint shop, as paintmaker Dürr has at the Mercedes A class plant in Germany.

Neither is necessarily right for a truly lean manufacturer, particularly one which sets its goal to be in the first handful of world class carmakers. How to achieve world class quality and productivity and lean process stocks are some of the issues raised by these "visions" of the future.

Outsourcing certainly has its role. Indeed, as much of the vehicle as possible should be outsourced to specialists who are leaders in their field. Nissan, at its Sunderland plant in north-east England, has pursued this course relentlessly from the outset. Everything from seats, carpets and facias, to small pressings, accounting for more than 70 per cent of the car's value, is produced by suppliers. That is as it should be, and is a higher level than achieved by many of our rivals.

The highest quality, lowest cost and best technology will be available from these suppliers. No carmaker would dream of making its own fuel injection pump or injectors; we all leave it to the likes of Bosch.

Every carmaker will position the limit on outsourcing differently. Nissan's Sunderland plant produces in-house plastic fuel tanks, rear axles and cylinder heads. In many cases, the technology for these components is unique to Nissan; in some cases the level of technology required is not available from suppliers.

It is important to define exactly the reasons for outsourcing. If it is a result of an analysis of who has the expertise, who can provide the best technology, who can develop most effectively at world scale, then it is likely to be the right choice. If it is a way of reducing in-house difficulties, seeking lower labour rates, achieving higher productivity than seems available in-house, there are more fundamental questions to be asked – and almost certainly, different answers to be gained.

Control of assembly quality and problem investigation are both made significantly more complex when major sub-assemblies are outsourced – it is difficult to conduct continuous improvement, team building and unbiased problem solving across business boundaries. Experience tells us that obtaining shared goals through one company is not easy – compound that at your peril, or at least make sure you do not lose more opportunities in the next decade than you gain in the next three or four years.

Rarely does a carmaker identify the real reasons why it is giving up control of major parts of the manufacturing operation. Often it is because in-house productivity in the assembly operation is poor and suppliers starting afresh can do better, so reducing costs. If, in addition, in-house labour costs are high and labour flexibility or absenteeism is poor, their suppliers will appear to be attractive alternatives to continuing to assemble in-house.

To justify such a move it is a "useful" mindset to have engineers design the sub-assembly so that it has to be produced as a module. You can see how the argument for outsourcing develops into a grand strategy; however, a strategy which is implemented for these reasons is deeply flawed.

Perhaps the biggest disadvantage of outsourcing of sub-assemblies is its incompatibility with the vital quest for lean manufacturing. One of the most important things in any manufacturing process, or indeed in any process at all, is to eliminate wasteful activities.

The sub-assembly concept inevitably means more handling, and so cost, but more significantly you will be producing "them" long before they are actually needed at the point of assembly on the production line. In-process stocks will be higher, restrictions on scheduling greater, floor space wasted, risk of damage increased – the list of opportunity for waste and weakened control goes on, of that there can be no doubt.

The "lean" principle is to make a component as close to the point in time and location as it is needed. At Nissan in Sunderland, the Micra facia was assembled on a short conveyor line close to the assembly line, with finished facias being loaded into a rack for moving to line-side. This was a great deal better than bringing in a large sub-assembly from a local supplier, but still not good enough by world standards.

As part of a normal "just-in-time" exercise, the nine-station conveyor is now standing dormant and instead two staff stand on a moving "shuttle" which moves with the assembly line for three car lengths and then returns to its start station for the next cycle. The process lead time has dropped from 28 minutes to 4.2 minutes and the manning has been reduced from three to two.

The second man in the operation both finishes assembling the facia and then fits it to the vehicle – all within the normal track cycle time. A similar just-in-time exercise in the Micra suspension area has seen the number of hub assemblies in-process shrink from 30 to zero. Likewise, the manning has been reduced by one-third as hub assembly now takes place at the point that the hubs are fitted to the front axle.

Any need to increase the in-process stocks should be questioned very hard indeed; it may be justifiable, but be careful. Adding suppliers adds complexity, so the benefits must in turn be even greater to justify a double handicap. Be certain of one thing: the best will not accept necessary evils, they will eliminate them. Those that create them now as an "easy" way to avoid problems or reduce cost dilute their ability to stay with the world's best.

If a supplier delivers large sub-assemblies you have lost control and your ability to achieve continuous improvement is impaired. As a car manufacturer your ability to achieve world class quality and cost is diluted. Beware the religion of outsourcing because it will consign many carmakers to the second division in the race to be world class.

CASE STUDY

High hopes for rewards

Peter Hellman: 'There's magic in the numbers'

Of the world's big automotive components companies, few have such a glittering array of technologies to dip into as TRW, which combines its car interests with being one of the US's biggest makers of satellites and other space systems.

While the goal of transferring ideas between such different industrial operations has often led to disappointing results when it has been tried by other companies, TRW has high hopes that its car division can reap big rewards by gaining access to new techniques pioneered by the other parts of the company.

TRW's automotive sales of $7bn a year puts it among the world's five biggest independent vehicle parts suppliers. It is the world's biggest maker of air bags for protecting passengers in crashes and a leader in other parts, such as steering systems, engine valves and seat belts.

While some 90 per cent of its automotive sales are in the US and Europe, each with roughly equal shares, TRW is also trying to grow sales in the industrialising nations of south-east Asia and South America.

The other side to TRW, which is based in Cleveland, Ohio, covers a variety of space and telecommunications activities. These operations, with annual sales running at more than $3bn a year, have been bolstered by the recent $1bn acquisition of BDM, a US software and consultancy business.

Non-defence government organisations and private companies add up to a large proportion of the customers for the telecoms and consultancy part of TRW. The company has also built up expertise over 30 years as a provider of satellite and space systems to the Pentagon, for instance for the US government's top-secret Milstar military communications satellites.

As the pressure on the US military budget has reduced opportunities for growth in this part of the company, the effort to transfer ideas from the space and communications division to the automotive unit has increased.

"TRW gains research and development spending of $1.5bn a year from the US government for the space and communications side of the business, and we spend another $500m a year of our own money," says Peter Hellman, TRW's president and chief operating officer. "There's magic in these numbers. It gives us a unique flywheel to spin ideas into the automotive part of the company."

To help this process, TRW has set up a unit inside its California-based space division whose job is to arrange the secondment of some of the company's 13,000 space and defence engineers into TRW's automotive operations. The engineers are experts in a variety of fields involving electronics or software, both of which are becoming increasingly important in cars. At any one time, about 100 of the TRW defence engineers are working on vehicle projects, for instance on sensors for airbag deployment or electronic control systems for steering. "There are big growth opportunities," says Mr Hellman. "About 10 per cent of our automotive component sales involve electronics, and the figure could be several billion dollars in a few years."

In the past, efforts to channel ideas from high-tech, aerospace-related fields to cars within the same companies have frequently ended in failure. Few tangible results came, for instance, from the attempt to interchange the cultures of aircraft and vehicle building during the early 1990s when the UK's Rover car group was controlled by British Aerospace. Similar disappointments came during the short-lived experiment of General Motors taking charge of Hughes Aerospace, the world's biggest satellite builder. Hughes was sold last year to Raytheon.

Mr Hellman insists TRW's efforts will provide better results. "The other companies tried to address technology transfer through changing their organisations. We are doing it by transferring people. Our customers are already starting to see the benefits."

Peter Marsh

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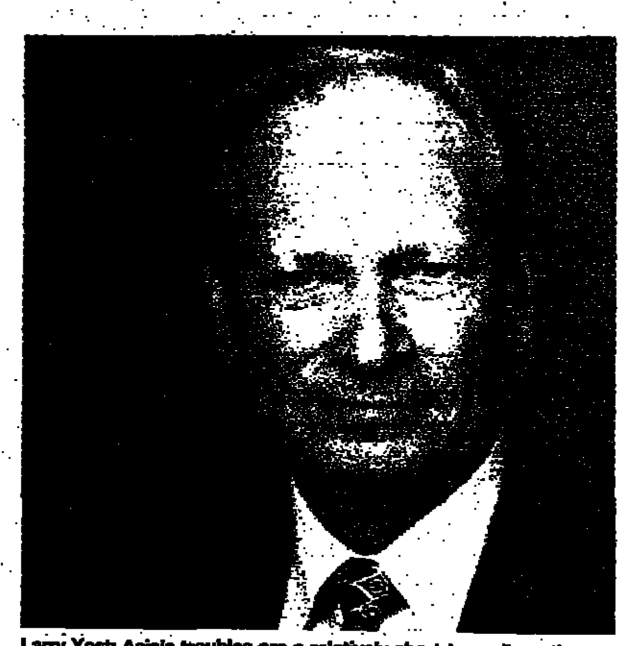
Companies

An independent Meritor hits the ground running

Larry Yost talks to **John Griffiths** about the group's early months following its spin-off from Rockwell



Larry Yost: Asia's troubles are a relatively short-term disruption

Meritor, the US automotive group spun off from its Rockwell International parent in October, is projecting sales to grow by 8 per cent and earnings per share to advance by 15 per cent over the next several years. Its chairman and chief executive, Larry Yost, says the company will make whatever acquisitions are necessary to make it world market leader in its chosen core business segments.

Meritor claims already to be the world's biggest maker of truck and trailer axles, truck anti-lock braking systems, and other heavy duty driveline components through its HVS (heavy vehicle systems) division, and of some key elements of car components systems, particularly window regulation and door mechanisms.

Meritor has hit the ground running as an independent group. Its global reach is already established, and its truck and car-related businesses are moving quickly towards contributing an equal amount to turnover, thanks to particularly rapid growth of the car business.

Its 16,000 employees are spread through 48 manufacturing facilities worldwide and there are currently 14 joint venture partnerships with more likely to come, particularly in developing regions such as the Mercosur pact countries of Latin America and Asia-Pacific. Like many in the automotive sector, Mr Yost does not see the economic turbulence sweeping through the latter region as more than a relatively short-term disruption.

Around 45 per cent of sales currently are outside the US and, says Mr Yost, investments already made in facilities – particularly throughout Europe in the past five years – mean that Meritor should not be faced with excessively burdensome capital investments in pursuit of its sales and earnings growth objectives.

These objectives, he insists, are wholly credible: "Our sales grew by 22 per cent between 1994 and 1997 at a time when the industry as a whole remained fairly flat."

Much of the growth is accounted for by the LVS division, whose investments in facilities in a number of developing markets – typified by a complex at Liberec in the Czech Republic which has already become Meritor's sole (and low-cost) source of global supply for some door system components – have been paying off. LVS's own turnover rose by 50 per cent in the 1994-97 period.

Earnings growth comes as a result of both rising sales and a firm onslaught on costs. The latter are being cut by around 4 per cent a year as Meritor's management systematically applies the sharper focus on business efficiency made possible by independence.

Not surprisingly, the company's senior executives have had a good idea where to look for savings, as most are Rockwell veterans. Mr Yost previously had been running the heavy systems division, while light systems president Bob Calder has been overseeing the division's globalisation strategy for years.

Although vehicle systems – both car and truck – are becoming more complex, particularly as electronics proliferate, there is no intention to broaden significantly Meritor's product range into new areas. "Where HVS is concerned, our focus will remain on the drivetrain, but downstream of engines; that's one area where we have no interest."

Some of the expectation of HVS division growth is fuelled by the proclaimed belief that European truck-makers increasingly will be obliged to outsource more of their main component systems after years of strong vertical integration – a view not necessarily shared by some of the manufacturers themselves, however.

Executives at Dutch-based DAF, for example, insist that there will remain a high level of "in-house" components, including engines, despite DAF's takeover last year by Paccar of the US, the world's second-largest heavy truckmaker. Paccar, like much of the North American truck industry, buys in most of its main components from companies such as Meritor and diesel engine manufacturers Cummins and Caterpillar.

Thus companies such as Meritor cannot help wondering whether and for how long the DAF stance might endure. "Certainly, with the globalisation process, international competition has become very intense and the truckmakers have got to keep finding more ways to cut costs," says Mr Yost.

Growth does seem assured, however, in the form of the increased sophistication of component systems and the additional revenue that can flow from their design, development and manufacture.

"For example, we started out with producing axles," says Mr Yost. "We built up a significant share in those and then came contracts to add the brakes. Now we are into the complete air suspension system; and, of course, the business will become more and more valuable as the truckmakers move towards global truck platforms."

In terms of global strategy, Meritor has already staked a long-term claim to a share of the inevitable growth of China's vehicle car and truck markets, even though it is accepted that the road to consistent, worthwhile returns is likely to be a long one. It expects returns from several investments in India's burgeoning car and truck markets somewhat earlier, and is bullish also about the prospects for Mercosur, where it also has both car and truck ventures.

For all that, Mr Yost knows that the sector will remain tough, with margins under relentless pressure – evidenced in Meritor's own $192m operating profit, $99m net – on its $3.3bn sales during the final year under Rockwell's ownership.

Mr Yost is not daunted. "Look at the industry trends – they're all playing into our hands," he says.

Statistics

A year of uncertainty

The world's motor industry starts 1998 with European sales up sharply – but mainly due to individual government sales incentives – and ongoing debate over whether North America will enjoy further growth or stagnate. [illegible]

Manufacturers in both regions will be keeping a wary eye on Japanese and Korean manufacturers, to determine whether the collapse of some Asia-Pacific markets will provoke a renewed exports onslaught in the West. [illegible]

Data provided by Marketing Systems [illegible]

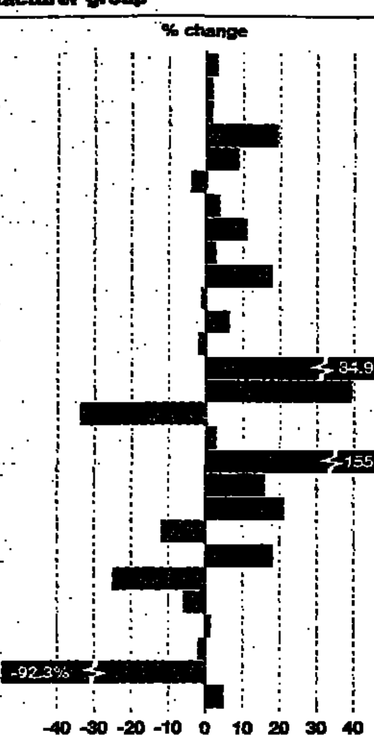
Production of passenger cars (000s)

Western Europe	1995	1996	1997
Austria	59	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
France	3,051	3,147	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Italy	1,422	1,318	1,500
[illegible]	[illegible]	[illegible]	[illegible]
Portugal	73	[illegible]	185
[illegible]	[illegible]	[illegible]	[illegible]
Sweden	388	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Turkey	233	200	232
[illegible]	[illegible]	[illegible]	[illegible]
Eastern Europe			
Bulgaria	2	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Former USSR	992	[illegible]	1,000
[illegible]	[illegible]	[illegible]	[illegible]
Hungary	[illegible]	53	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Romania	92	117	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
North America Free Trade Association			
US	6,342	6,070	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Mexico	700	816	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Japan	7,611	7,864	8,494
Asia (excluding Japan)			
[illegible]	[illegible]	[illegible]	[illegible]
India	364	475	400
[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	239	291	300
[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	281	283	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Argentina	227	269	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	43	34	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Australia	310	[illegible]	[illegible]
World	[illegible]	[illegible]	[illegible]

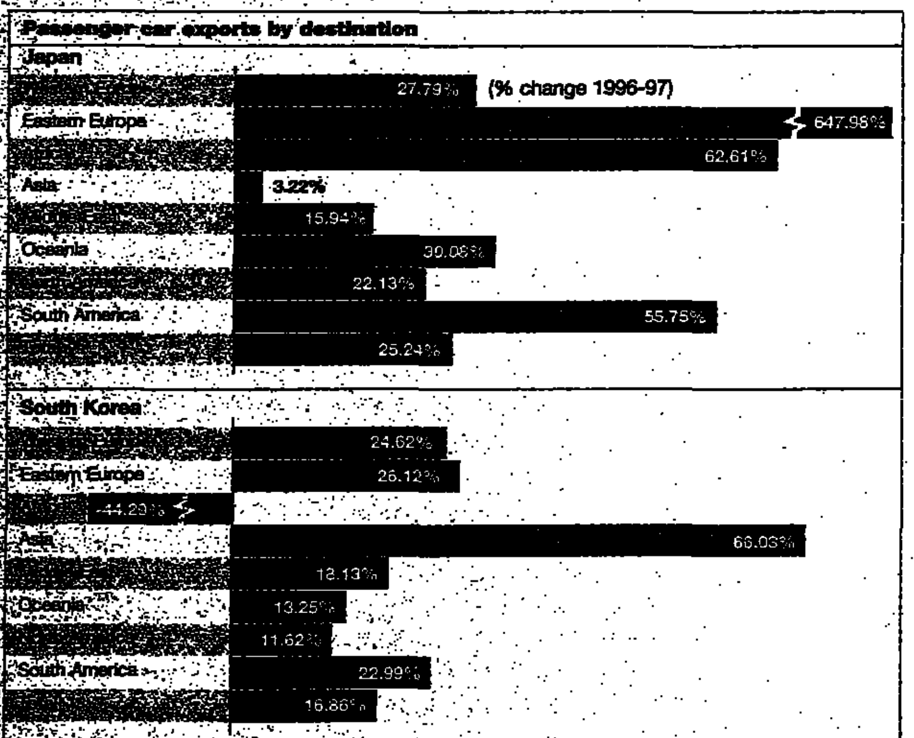
Source: Marketing Systems [illegible]

Car production in Western Europe by manufacturer group

Group	1996	1997
Volkswagen	2,401,174	2,477,456
[illegible]	1,886,836	1,904,945
PSA	1,702,087	1,731,948
[illegible]	1,641,887	1,602,687
Renault	1,420,059	1,545,138
[illegible]	1,387,098	1,529,080
BMW	1,043,338	1,084,821
[illegible]	[illegible]	[illegible]
Volvo	373,107	384,035
[illegible]	231,622	273,463
Toyota	116,973	115,293
[illegible]	105,930	122,856
Chrysler	92,377	90,334
[illegible]	44,491	82,259
Porsche	23,079	32,188
[illegible]	24,824	16,174
Carbodies	2,794	2,879
[illegible]	2,744	2,904
[illegible]	1,348	1,554
[illegible]	[illegible]	2,476
MCW	807	709
[illegible]	[illegible]	855
Puch	750	561
[illegible]	491	461
Morgan	449	455
[illegible]	229	218
De Tomaso	13	1
[illegible]	[illegible]	13,710,346



Passenger car exports by destination



New registrations of passenger cars (000s)

Western Europe	1993	1994	1995	1996	1997
Austria	285	274	280	308	275
Belgium	375	387	359	397	396
Denmark	84	140	136	142	151
Finland	56	67	80	96	105
France	1,721	1,973	1,931	2,132	1,713
Germany	3,194	3,209	3,314	3,496	3,528
Greece	147	107	125	140	160
Ireland	64	80	87	115	137
Italy	1,698	1,686	1,745	1,735	2,412
Luxembourg	30	30	29	31	32
Netherlands	392	434	446	473	478
Portugal	242	233	201	219	214
Spain	744	910	834	911	1,013
Sweden	124	156	170	180	225
UK	1,778	1,911	1,945	2,025	2,170
Norway	61	85	91	125	128
Switzerland	257	266	268	272	271
Turkey	449	244	199	217	275
Others	9	10	14	14	15
Total	11,711	12,203	12,253	13,029	13,696
Eastern Europe					
Bulgaria	20	14	11	15	21
Former CSFR	105	106	136	228	249
Former USSR	797	903	889	907	943
Former Yugoslavia	68	54	68	67	75
Hungary	76	90	69	75	84
Poland	239	250	264	374	475
Romania	65	71	86	97	107
Total	1,368	1,488	1,523	1,763	1,951
North America Free Trade Association					
US	8,515	8,993	8,636	8,529	8,264
Canada	739	746	677	661	740
Mexico	399	414	117	200	280
Total	9,653	10,153	9,430	9,389	9,284
Japan	4,199	4,210	4,444	4,669	4,492
Asia (excluding Japan)					
China	300	342	433	390	470
India	245	282	394	465	486
Indonesia	32	40	38	44	74
Malaysia	129	158	228	280	326
Philippines	51	59	71	89	76
South Korea	1,037	1,148	1,074	1,247	1,204
Thailand	174	156	163	173	134
Taiwan	399	432	415	363	356
Rest of Asia	170	199	172	185	186
Total	2,537	2,810	2,988	3,235	3,312
Latin America					
Argentina*	264	418	275	296	331
Brazil**	910	1,139	1,411	1,401	1,575
Rest of Latin America	480	519	503	519	651
Total	1,654	2,077	2,189	2,216	2,557
Middle East	495	448	418	448	505
Africa	356	359	452	489	520
Oceania	484	547	568	583	582
World	32,456	34,298	34,268	35,621	36,901

*From 1994 onwards imports included **From 1993 onwards imports included

Productivity and technology

Lessons in improvement

John Griffiths examines a 'kaizen breakthrough' at Perkins, where a continuing programme of examining production methods is reaping many rewards

Perkins Engines, the UK-based diesel engine maker sold for $1.3bn recently by LucasVarity Corporation to Caterpillar of the US, invited in a few outsiders just before Christmas to help Perkins tear itself apart.

Large mobile cranes, forklift trucks and anything else that might be needed were placed to hand. Then the management stood back – well, almost – and let them get on with it.

The outsiders came from a diversity of companies; some to which it is a supplier of engines; others in the financial services and accountancy fields. They came from a variety of working backgrounds, with few having close connections with process engineering.

Yet just four days after they had first started walking purposefully towards key areas of Perkins' production lines, to embark on what was formally named a "Shopfloor Kaizen Breakthrough", the transformations they had achieved in terms of improved efficiency and productivity could be described accurately as radical.

In the four production areas which the outsiders, formed into teams with a mix of Perkins' own workers, tackled, few of the processes in place just four days earlier were immediately recognisable

A large area devoted to machining of engine connecting rods had been completely reconstructed, including the reshuffling of process machinery weighing several tonnes. The floor space needed for all the processes had been cut by 72 per cent.

Work in progress had been reduced by 93 per cent. The labour force required to carry out the processes had been reduced by 40 per cent, and the number of machine tools required from eight to five.

The results, according to Perkins' general manager and divisional director, Brian Amey, were even better than the company has come to expect from the ongoing series of "kaizen breakthrough" taskforces it has now sent into action in some 150 areas of the plant.

Until the most recent four-day exercise in "kaizen" – the Japanese term for continuous improvement – the teams had consisted always of Perkins' own employees, but from different areas of the company from that being targeted.

The "breakthrough" idea is that the teams, comprising usually a dozen or so, bring a fresh and critical eye to long-entrenched, but not necessarily efficient, production processes in the space of a short, highly concentrated exercise lasting just a few days.

This time round, however – an occasion regarded by Perkins as a big first – was to be a public kaizen, opening the company's doors and its processes to wider critical scrutiny.

The productivity and cost-saving gains were made by all teams involved in the exercise, with empirical evidence of the improvements when the four teams of the public kaizen made formal presentations to Perkins management at the end of the exercise.

Another team of a dozen or so which examined the core build area of Perkins' four-litre engine range made sweeping changes.

Much process plant was shifted around, with parts for assembly made to fall more easily to hand by opening up both sides of the assembly line and reducing radically the number of movements required of operators. Result:

- A 41 per cent improvement in operator productivity;
- A 79.5 per cent reduction in inventory;
- Floor space reduced by 45 per cent;
- Cycle time reduced by 25 per cent.

Total distance travelled by employees between process functions for a complete cycle reduced from 350 metres to 50 metres. Previously, the team had found "workers hopping around the production line like rabbits".

The process meets no apparent resistance from the shop floor. To the contrary, most of the company's several thousand employees, many of whom have themselves now been involved in internal kaizen breakthrough, say they have found the exercises stimulating as well as surprising.

However, part of the ground rules set down by North Carolina-based TBM Consulting Group, which has overseen Perkins' kaizen activities, is that employees receive pledges of no redundancies arising from the exercises.

In Perkins' case such assurances have not been difficult to give. The company has embarked on a number of expansion programmes expected to result in engine production doubling to around 500,000 units a year by early next decade.

Some of the public kaizen solutions were relatively obvious and clearly had been in the back of managers' minds as needing improvement even before it began.

For most of the teams, indeed, the pre-exercise discussions with plant managers gave some clear pointers as to where some improvements might come.

Nonetheless, Perkins managers are adamant that the teams were not merely following up ideas for improvement planted by managers themselves.

Much of the teams' attention was taken up with dismantling "pipeline" processes – so restricted and sequential that they can only move at the speed of the slowest operator or piece of equipment – and putting in their place a system which could flow around obstructions.

In all operations like this, says Anand Sharmah, TBM's president and chief executive, the idea is "to lower the water around the process to make any efficiencies visual and painful. If you let people continue to hide problems then you cannot manage those problems".

Mr Amey, who joined Perkins in late 1995 from Nissan, where he had been deeply involved in ongoing improvements of production systems, knew very substantial production increases were in prospect for Perkins when he joined, and one of his first acts was to start kaizen activities.

Factory floor space started appearing as if from nowhere. "It proved time and time again that we already had the space capability to double production," recalls Mr Amey.

But can kaizen breakthroughs work for everyone?

Mr Sharmah agrees that this is not the case, but says that what he would regard as companies failing to get a serious grip on kaizen-type improvements represent no more than 5 per cent of the more than 100 US and more than 20 UK companies with which TBM has worked.

Kaizen, stresses Mr Sharmah, is surprisingly easy to make gains initially. "But it is much more difficult to sustain."

New diesel engines are on the way

PSA Peugeot-Citroën, the French vehicles group, is to start production of a new generation of diesel engines in October, using "common rail" fuel injection technology to cut fuel consumption by 20 per cent compared with its current range, writes John Griffiths.

The group, which is investing FFr3bn to develop and produce the engines at its SMAE subsidiary in eastern France, also claims the engines will weigh 22kg less than current equivalent units while providing 50 per cent more torque and 25 per cent more power. Emissions are claimed also to be down substantially – carbon dioxide, the main "greenhouse" gas, by 20 per cent, carbon monoxide by 40 per cent, and particulates – suspected of being a carcinogen – by 50 per cent.

The new technology, pioneered by Fiat and developed jointly with Robert Bosch of Germany, injects fuel directly into the combustion chamber at very high pressure from a single fuelling line.

The "HDI" (high-pressure direct injection) engines will replace the group's XUD units, one of Europe's most widely-used car diesel engines with more than 7.5m sold. HDI output will start at the SMAE facility at a rate of 400 a day, climbing to 2,000 a day by the summer of 1999. They will be used throughout the Peugeot/Citroën model ranges.

Now it's much easier to track the trucks

This satellite-based system can boost efficiency for companies and benefit drivers, says **John Griffiths**

There is a small but growing number of commercial vehicle drivers wishing that, far from merely naming his company Minorplanet, Christopher Harrison would find a real one – a long way off – and stay on it.

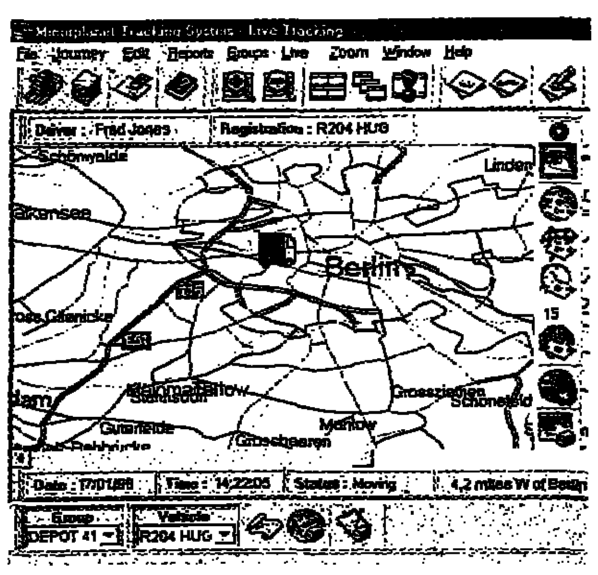
Dr Harrison, the company's founder, and 80 colleagues and employees of the logistics software concern that is based in the northern England city of Leeds, have begun taking the fun and perks out of the working lives of some truck and van drivers – or, at least, of the minority who waste employers' time and/or money when their vehicles are out of sight of the depot.

In the process, however, says Minorplanet Systems' chairman – Michael Abrahams, who is also deputy chairman of the UK insurance group Prudential – employers are saving money and improving efficiency on a much more significant front. One operator, he says, this year will save £150,000 in running costs on its fleet of 50 delivery trucks by using Minorplanet's system for monitoring vehicle movements.

Geo-stationary satellite-based systems to track vehicle movements are not new.

The Securicor group, through its Trakbak subsidiary, and the rival Tracker group have already earned the gratitude of hundreds of owners whose stolen vehicles have been tracked down by the systems' satellite-based locator 'bugs' hidden within their cars and trucks;

In a somewhat different vein, the Safeway supermarket chain is among a growing number of companies with large distribution activities making use of satellite communications to monitor driving habits. Drivers are sent for retraining, for example, if the monitoring software shows they habitually make excess use of the accelerator – and thus waste fuel.



In Safeway's case, under a joint development with the Dutch computer company Logiq, it is also monitoring truck movements on real-time headquarters screens so that drivers can be alerted to traffic obstructions or stores warned that deliveries are going to be late.

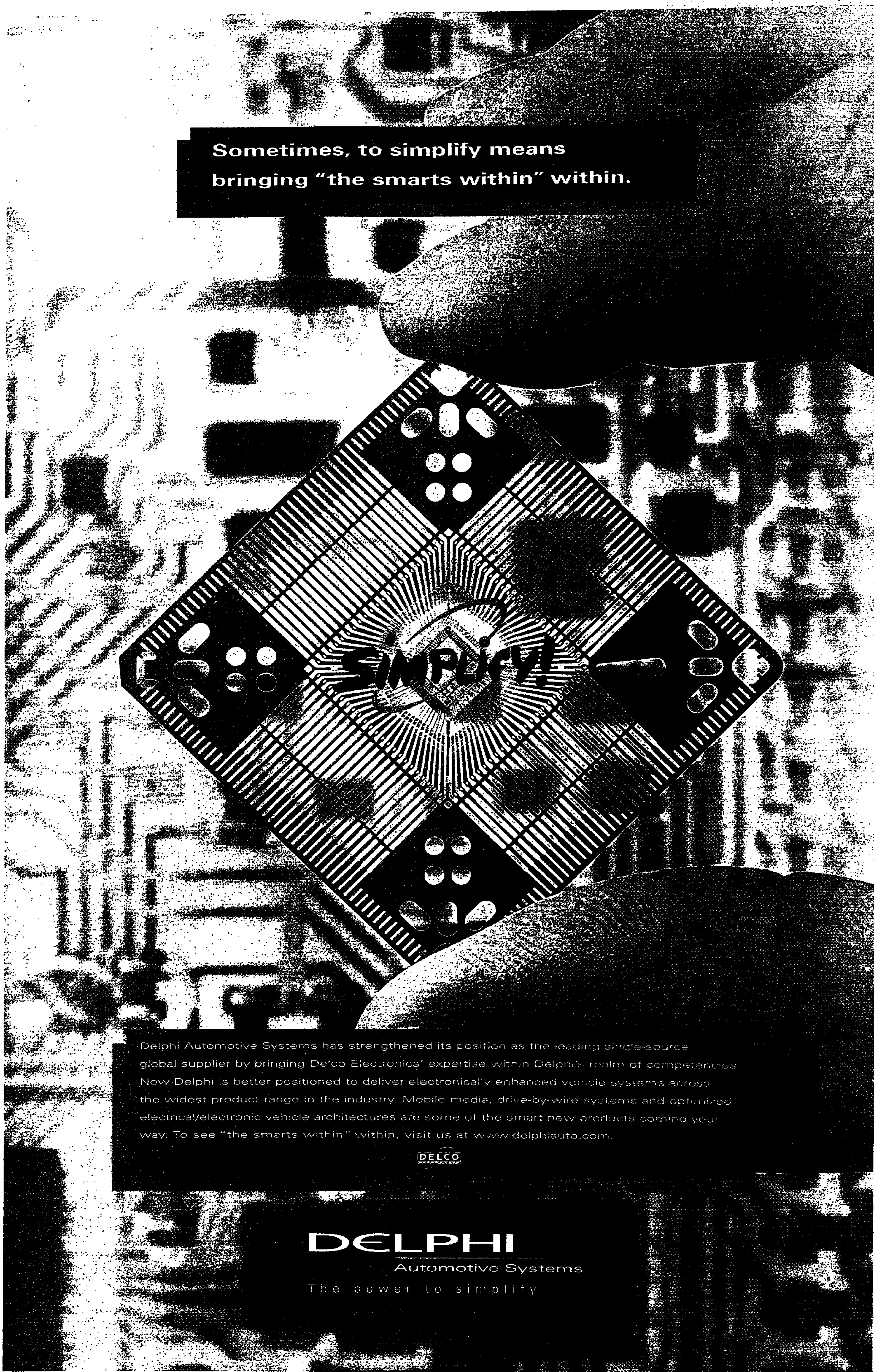
The competitive advantage claimed for the vehicle management system developed by Minorplanet – valued at £17m on the Alternative Investment Market (Aim) when floated in London in November – is the minute detail in which it monitors and logs a vehicle's movements.

For truck and driver, there is no place or time to hide. Minute by minute, location within a few yards, route, speed and duration of stops are recorded. Downloaded onto a computer, each journey can be followed in detail on a CD Rom-driven map. Soon, the downloaded data will also reveal which vehicle doors have been opened and for how long, when and for how long tail lifts were raised and lowered, and even the prevailing temperature inside refrigerated trailers. Data from up to 500 trucks can be downloaded almost simultaneously via computer.

It is a process in which the driver plays no part. The on-board system itself cannot be tampered with or switched off. Unlike tachographs, drivers do not even need to be told the equipment is installed – although not to do says, Minorplanet's operations director, Andrew Tillman, is unlikely to be good for workforce morale.

Both software and hardware are designed, developed and manufactured by Minorplanet, its own engineers travelling to customer depots to carry out installation, which takes about one hour per truck.

Much as the system might be loathed by some drivers, for the majority it could be seen as a benefit, insists Mr Tillman – validating overtime, breakdowns or traffic delays which in the past were regarded with suspicion or even resulting in claims being refused.



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